

JUN 8 1934

THE ROUND TABLE

A QUARTERLY REVIEW OF THE POLITICS OF THE
BRITISH COMMONWEALTH

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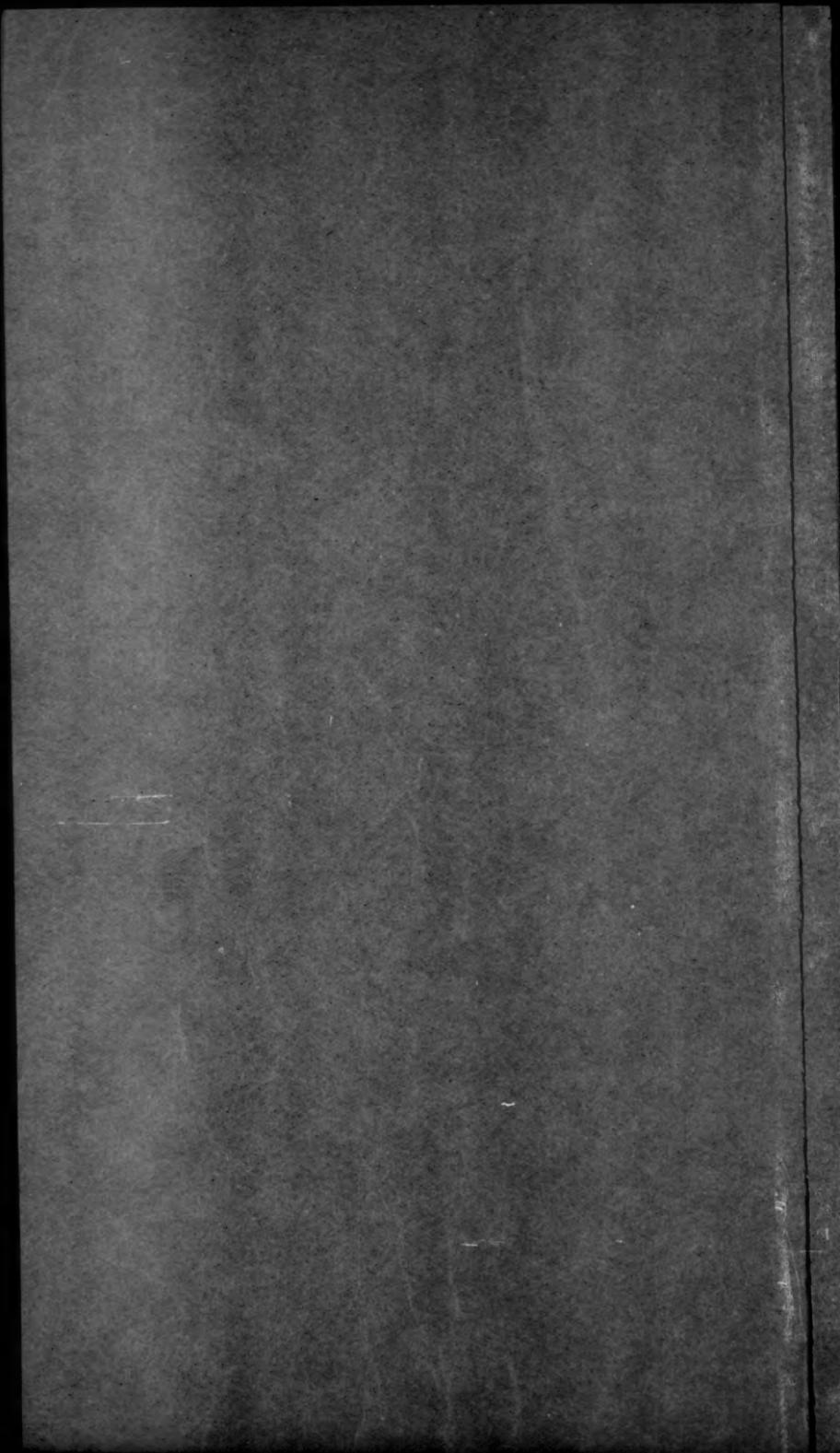
New Zealand in the Depression

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THE RECOIL FROM FREEDOM

MANY have asked themselves during the last few weeks whether the victory of 1918 has not been almost undone. While the principal Allies, as they were known during the world war, France, the British Commonwealth and the United States, are still wedded to free institutions, much of the rest of the world, Russia, Italy, Turkey, and now Germany, have apparently thrown them over and substituted dictatorship in some form in their place. They have not restored their pre-war forms of government, but created entirely new systems, communism and fascism, with different ends in view but equally based on dictatorship by a single popular party. Does this mean that the theatre is set for another world war between tyranny and freedom ? It is by no means certain that this conflict need arise. It depends partly upon what communism and fascism evolve into and partly on how the countries still wedded to the parliamentary and liberal system react to the terrific stresses of the present age. It may be that the existing phase of dictatorship in Germany and Italy, and even in Russia, will pass away. It may be that there are elements in the experience of Russia, e.g., planning, or of Germany and Italy, e.g., national discipline, from which the liberal Powers may have something to learn. But it is obvious that the complacency with which people, at least in the British Commonwealth and the United States, have assumed that the results of victory of 1918 would maintain themselves is no longer justified and that they must consider seriously how freedom is to be preserved in the world of to-day.

I. THE MEANING OF FREEDOM

WHEN we talk of freedom in the political sense of the word what do we mean ? In substance we mean the basic ideas which derive from the civilisations of Greece

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and Rome, and from Christianity, and which, after long struggles, have become enshrined in the judicial and political institutions of the western liberal Powers. In essence these ideas fall into two groups. There are first the constitutional guarantees of individual liberty, guarantees embodied in Great Britain in Magna Charta, the Bill of Rights and countless legal decisions, and, in other liberal countries, in other similar enactments. Under these guarantees the individual is protected against violence and wrong from other members of the community, and against interference or arrest by the State, save by due process of law administered by courts which are independent of the executive and concerned only with the interests of justice and not with *raisons d'état*. Secondly, there are the constitutional guarantees that government shall be based on the consent of the governed. In recent times this has come to mean that the executive government shall, under the parliamentary system, be in the hands of those who can command a majority of the members of the legislature elected at a general election, or, under the presidential system, of the electors, the electorate consisting in both cases of the whole adult population. What is probably more important, freedom means freedom of public meeting, freedom for the expression of political opinion, and freedom of the press, so long as these do not involve incitement to violence or immorality, libel or other encroachments on individual rights, for this means that in the long run the controlling power behind the government is public opinion, and that public opinion is not "made" by government but is the outcome of the free play of thought in the community itself.

The basic convictions underlying freedom as a political creed are twofold: first, the conviction that every human individual is entitled to equal rights before the law, and that he ought to and can acquire the capacity both for self-government and to think for himself, and secondly, the conviction that human progress will spring from giving

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free play to individual initiative, imagination and character, not from enforced obedience to constituted authority. Freedom leads inevitably to democracy as the system which enshrines the principle of individual responsibility, and is the best guarantee that law and government will, in the long run, rest upon the consent of the governed.

As against freedom stands the principle of autocracy, political and religious. Fundamentally autocracies do not believe in the capacity of the individual to think for himself or to govern himself. They believe in authority, that the State or the Church or some other human institution must direct and govern, and that the people must obey. Hence, by an inevitable logic they are anti-democratic, substituting conformity, propaganda and the repression of opposing opinions by arbitrary power for freedom of individual judgment. Inevitably, too, individual rights begin to be subordinated to the purposes or policies of the government.

The free system is not easy to maintain. Over and over again in history it has been overwhelmed through internal decadence or by external attack. It depends upon there being enough education, public spirit, independence, initiative and self-sacrifice in a sufficient number of persons to enable them individually to resist the demoralisation that freedom makes possible, to ensure that freedom is not contracted by reaction, but extended to meet the changing conditions of the modern world, and to maintain the reign of law and vigorous progressive government. There are some, indeed, who believe that the statement of St. Paul is true that "where the spirit of the Lord is there is liberty," and that without an adequate element of free and vital religion, a free system cannot last.

II. THE WAR FOR FREEDOM

BEFORE the war freedom had been steadily if slowly growing in the world, both in the greater security that it won for individual rights and in the spread of democracy.

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It was even challenging from within the great military autocracies of Germany, Austria-Hungary and Russia, and was breathing life into the old static civilisation of Asia. But freedom, before the war, had made little headway in the international sphere. Nations lived in a state of anarchy. They claimed unlimited sovereignty for themselves, had the legal right to make war, to conquer and annex as they chose, and international law was rather a code for mitigating the risks of anarchy than a system of law for securing freedom and justice among the members of the family of nations. In the last resort, in international affairs as in the jungle, might was right.

It is not necessary to enter upon a discussion of the origins of the world war. Disinterested opinion recognises that it was partly the inevitable outcome of pre-war international anarchy and partly an attempt to forestall the advance of democracy. As it ran its course, however, and especially after the Russian Tsardom collapsed, the war became more and more clearly a struggle between the liberal ideals which prevailed among the western democracies and the autocratic ideas which were dominant in Germany, Austria-Hungary and Turkey.

The victory of the Allies led to two major results. On the one hand, the liberal and democratic system spread, sometimes by revolution, over the whole of Europe and had profound effects in Asia Minor and the Far East as well. On the other hand, an attempt was made through the League of Nations to begin the foundations of the reign of liberty and law in the international field. The principles upon which the Peace Treaties were based were clear. Every civilised nation was entitled to independence and to the right to govern itself. Disputes between nations were to be settled not by war, or by a diplomatic trial of strength, but by reason and justice ascertained by arbitration or judicial decision or conference. International problems, especially those which might threaten the peace, were recognised to be the concern of the whole world and

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were to be discussed at the regular meetings of the Council and Assembly of the League. Disarmament was to be made possible and security increased by a system of mutual guarantees whereby members of the League were bound to support one another against unprovoked aggression.

It is true that these principles were imperfectly applied. Some of the frontiers in Europe were, in certain respects, unjust. Certain temporary features of the treaties were very onerous and kept the ex-enemy Powers for a time in a state of subjection. The reparation obligations, like the claims for war debts, were grossly impracticable. And the Peace Conference, while devoting a great deal of attention to the political problems, paid almost none to the economic. It made no attempt to limit tariffs and other impediments to international trade, or to recognise that economic problems, like political problems, ought to be considered collectively in a rapidly shrinking world. None the less the broad effect of the war was an immense extension of the formal boundaries of freedom. And the League of Nations was intended to be the instrument by means of which, given leadership and good will, the defects of the Peace Treaties could be peacefully remedied, armaments reduced, security enhanced, and changes in the political structure of the world, made necessary by man's ceaseless activity, adjusted peacefully and without war.

III. POST-WAR DETERIORATION

UNFORTUNATELY, the price of freedom is eternal vigilance, and that vigilance was not forthcoming. The United States almost immediately retired to co-operation, rejecting the League of Nations and the Anglo-American treaty of guarantee, and resuming a policy both of political and economic isolation, while at the same time she demanded repayment of her war-time loans to her allies. Great Britain refused to implement the treaty of guarantee in unilateral form, though she offered one at

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Cannes in 1922 to France, who then rejected it. France, deprived of the guarantees on which she had relied, fell back for security upon a system of military alliances with Poland and the Little Entente, the purpose of which was to ensure the integral enforcement of the Treaty of Versailles, and in 1922 she entered the Ruhr to compel the observance of the reparation clauses of the Peace Treaties, and to prove to those elements in Germany which sought to evade the treaties that fulfilment was a condition of Germany's existence. The League came into being, immensely weakened by the refusal of the United States and Russia to join it. It has functioned well as a clearing house for world affairs. But partly because it did not contain the United States, and partly because stability in Europe had come to be based on the military preponderance of France and her Allies, the League never acquired sufficient authority to enable it to bring about such revisions of the treaties under Article 19 as were reasonably necessary, or to create that alternative system of security against aggression which is the condition of disarmament. Still less was it able to effect a lasting settlement between China and Japan in the Far East.

But if there has been failure to bring stability to the world in the political field, the failure in the economic field has been far greater. Except for the creation of the International Labour Office, whose purpose was to try to bring about voluntary agreements protecting the standard of living of the workers, every government was left free to do what it liked economically. The League system provided for no regular conference about economic problems, nor was any restraint on economic nationalism suggested. For a time economic recovery was extraordinarily rapid so far as the stabilisation of currencies, the balancing of budgets, the restoration of devastated areas, and the restarting of international trade were concerned. But there were two factors, the full effects of which were hidden for a

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time, which made a return to economic prosperity increasingly impossible. The first was the gigantic claims, on the one side for reparations, and on the other for war debts, claims representing money spent on devastation and not on construction, which, added to the interest on private international investments, involved an enormous one-way traffic in goods, services or gold, with no counterbalancing flow of trade in the opposite direction. The second was the multiplication and heightening of tariffs and other barriers to trade as a result of the creation of new nations and the growth of nationalist sentiment, the effect of which was to tend to make nations produce the same things instead of exchanging their own specialities with one another. For some years between 1924 and 1929 the profound maladjustment of the economic life of the world, made inevitable by these two factors, was disguised by a series of foreign loans, largely to Germany, by the United States and Great Britain, a series which for the time being enabled the inward and outward streams of trade more or less to balance. But these vast loans could not continue indefinitely. They were brought to an end by the stock-exchange boom in the United States, the dislocation of supply and demand caused by uneconomic debt and tariffs became clear and the great depression set in. As markets became glutted and prices fell it grew more and more difficult for nations and business men to meet their obligations, the monetary system of the world ceased to function under the strain of trying to meet a one-way stream of debt payments, governments rushed into a policy of higher tariffs, exchange embargoes, prohibitions and subsidies in the desperate effort to shield their own producers from the dumping of products offered at a price far below the cost of production, and to protect their own currencies, thus still further blocking international trade, aggravating unemployment and unbalancing budgets.

This dislocation of the economic life of the world had

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profound results on the political situation. It intensified unrest, weakened the authority of the parliamentary system, strengthened the revolutionary parties and in certain countries led to the establishment of dictatorships as the only method of maintaining order. Moreover, with every month that passes vested interests are everywhere growing up behind these new national restrictions, and it is becoming more and more difficult, if it is not already impossible, to restore anything like the pre-war freedom for international trade. The World Economic Conference ought to show clearly how far we can expect to retrace our steps, and how far we have permanently entered a new world in which high protection, embargoes, quotas, import and export boards and similar methods of conducting a kind of systematic barter between nations, largely self-sufficient, have come, whether we wish it or not, to replace the pre-war order of things.

It is important, therefore, to consider the significance of the two movements, namely communism and fascism, which have come to a head since 1914, and which seem to challenge those ideals of liberty, democracy, economic freedom and a League of Nations, which triumphed in 1919.

IV. COMMUNISM

THE communist creed is not a product of the war. It had been forged long before by Marx and Lenin. But it was the war which produced in Russia the peculiar conditions which enabled a small band of determined Marxists, led by a man of genius, to overthrow both the Tsardom and the liberal provisional government, and to establish in its place the dictatorship of the Communist party in the interests of the proletariat. As an idealist theory communism makes an undoubted appeal. The doctrine that the earth and its fruits should be developed and organised for the benefit of the whole people, that reward should be conditional on work, and

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supply related to need, and that as far as possible men should have all things in common, and not live by usury or the ownership of the means of production by which the community lives, is very much that of the early Christians. The trouble with communism has been the method by which Lenin and his successors have sought to realise their ideal, for that has little or nothing in common with Christianity. The essence of the communist method is a ruthless class dictatorship, involving the total abolition of private property at a single stroke, the persecution, indeed, in many cases, the extermination of the bourgeoisie and the kulak, the suppression of individual rights before the law, of freedom of speech and the press, of public meeting and political association, and the concentration of every instrument for forming or guiding opinion, the schools, the universities, the press and the news agencies, in the hands of the Communist party. If this dictatorship had produced or, after sixteen years, showed any prospect of producing, a millennium, and of relaxing its ferocity and basing the new order that it has created on the free consent of the governed, the savagery of its early years might be forgotten. But it is becoming more and more evident that the communist thesis that it is possible for government to organise every aspect of the political, social and economic life of a people, and to produce either satisfactory material conditions or an ennoblement of the human spirit, or a sense of freedom, has been proved to be wrong. The standard of living in Russia to-day is below that of the period of the N.E.P., the dictatorship is more ruthless and unrelenting than ever in its devastating effects on the mentality both of rulers and ruled, and over a considerable part of its field the Five Year Plan of economic rehabilitation has broken down. There is no sign as yet of any change in the régime. It may manage to get its organisation into some kind of working order, but it seems clear that communism is not going to be, even on the material

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side, a success, that the peculiar revolutionary method of class dictatorship is not applicable to highly industrialised western Powers, and that peoples who have experienced liberty have decided that the evils of capitalism are preferable to those of communism.

This does not mean that socialism, as an ideal, will not make headway in the west, especially if, for the reasons we have already given, the old pre-war economic order has been fatally undermined. For, in essence, the moral appeal of socialism is that it seeks to secure to every individual citizen the same kind of security, equality and freedom in the economic field that he already enjoys in the political and before the law. If liberty, indeed, is to mean anything it must produce this result. But socialism, if it is to succeed, will have to divest itself of its Marxian trappings. It will have to throw over the old dogma that the entrepreneur capitalist, the person who organises capital, talent and labour to make some improved product or to render some improved service of value to the community, at a profit, or often at a loss to himself, is necessarily a villainous exploiter. It will have to abandon the idea that progress in the industrial west can be achieved by abolishing all private enterprise and substituting universal nationalisation run by an all-pervading bureaucracy. And it will have to produce a plan for socialism which, in the minds of reasonable people, is likely, in practice, to lead to the abolition of unemployment, and to give to all an adequate and a rising standard of living without the destruction of freedom. If socialism can produce such a plan no resistance on the part of the propertied classes will prevent it from being carried by constitutional means, if it is clearly in the interest of the community as a whole. In fact, socialism can only be carried by constitutional means, and if it attempts to resort to methods of revolutionary violence based on an appeal to class feeling, it is almost certain to be anticipated and suppressed by a fascist dictatorship. So far British

Fascism

socialism, like continental socialism, has not succeeded in producing such a plan, for the proposal to nationalise industry and agriculture by instalments seems bound to fail. It would do little or nothing to solve the vital problem of employment or of finding markets ; it would either mean confiscation from a class of property owners only, or the grant to them of the security of the taxes in place of the business they previously owned. It looks, indeed, to-day as if socialism in Great Britain, and indeed in the liberal west, will more and more move away from nationalisation towards a system of "planned private enterprise."

V. FASCISM

FASCISM, unlike communism, is not the outcome of a deliberately thought-out creed. It has arisen from the pressure of post-war events, and varies according to the countries in which it thrives. It is fundamentally the outcome of two causes. The first has been the necessity of creating a counter-organisation to resist the violent and revolutionary tactics of communism in countries where ordinary police methods have begun to fail. The second has been the conviction that the slow-moving deliberative parliamentary system, with its changing and weak governments, could not make the changes needed by the times, and that a more dynamic executive power must take its place. Fascism is by no means a merely reactionary movement. On the contrary it contains a strong ingredient of socialist doctrine. If it objects to the proletarian State beloved of communism, it objects equally to the plutocratic State in which public policy is controlled by capitalist or banking interests. Thus the "unalterable" programme of the Nazi party in Germany on which it has fought all its elections demands the "abolition of incomes unearned by work" (clause 11), and its financial principle is stated by Gottfried Feder, the official interpreter of its policy, in

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the 1932 election programme as follows : " Finance shall exist for the benefit of the State ; the financial magnates shall not form a State within the State. Hence our aim is to break the thraldom of interest."

The constructive side of fascism rests upon the idea of the corporate State. It does not abolish private property or nationalise the means of production, distribution and exchange, or seek to run them exclusively by government officials. It retains the services and initiative of those who have made and created the industry, agriculture and transportation and distribution systems of the day. But it considers that the State must stand above and outside all interests, whether of capital or labour, and be strong enough to prevent either capital and labour or any other interest from taking anti-social action and to compel them to conform to what is in the interests of the community as a whole, because " the general welfare is the highest law of all." For this reason, while preserving universal suffrage as the ultimate test of popular sanction, it substitutes for the attempt to adjust a continuous conflict of interest and opinion in Parliament the dictatorship of a party controlled by those who are prepared, while consulting the interests of capital and labour, to govern autocratically in the interest of the community as a whole. For it considers that nothing but the will of a dictatorship sternly enforced is strong enough to bring about the profound social and economic reorganisation to which the world is now being driven by the progress of science and the economic dislocations begun by the war.

Such is the political theory of fascism. In Italy, under the iron hand of Mussolini the corporate State has come into being. In Germany, the Nazi movement has succeeded in seizing absolute power, but has not yet formulated its programme of reconstruction.

It is too early to judge of the future of fascism as a world movement. It is growing more rapidly than socialism, and in its claim to put the community above any class and to create a government strong enough to master the social

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consequences of the economic crisis which to-day affects every country alike, it has an appeal which is related to the facts of the time. Nor is there, inherently, any reason why fascist States should not work successfully a League of Nations system, for their preoccupation with economics must make them even more aware of the devastating consequences of war, and of the benefits of settling disputes by pacific means, than the less economically minded States which went to war in 1914 and made the peace in 1919.

But fascism, like communism, is liable to be a very different thing in practice from what it claims to be in theory. For it seems to be almost as much in love with dictatorship as an end in itself as communism, though it substitutes, especially in Germany, an appeal to racial pride and ascendancy for the appeal to class feeling as its main driving power. Like other revolutionary movements, it has drawn its strength from the intemperate enthusiasm of youth—youth which knows little of what war really means or of the fatal risk of violent short cuts to idealistic ends, and which sees in the seizure of power the surest prospect of employment for itself in a disorganised world.

No doubt, the Nazi revolution in Germany represents to some extent a healthy national resurgence against the defeatism engendered by the defeats of 1918 and later years, and a desire to purify and discipline the national life from some of the corruption which has been manifest since the war. But the corruption and inner decay caused by a dictatorship based on racialism and violence are far more subtle and far reaching in their effects than the corruption engendered by freedom, and far more difficult to remove. The undiscriminating brutality of the "Brown terror," especially its inhuman persecution of the Jews merely on the score of race and regardless of whether the individual was or was not a loyal citizen, cannot make for the greatness or independence, or power of initiative of the German people. The suppression of an independent press and independent political controversy, the principal means of

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enabling people to learn to think and act for themselves, the constant pressure of terror brought to bear on people by a secret police, and the streams of tendentious propaganda flowing from sources controlled by government, are evils far more devastating and devitalising to the soul of Germany and menacing to the world, if they are continued, than the evils against which the Nazis protest. Let us hope that the ruthless attempt of the Nazis to identify a party with the State is a passing phase, and that a revitalised, purified and progressive Germany, in which individual freedom and freedom of public opinion are restored, will soon reappear. But for the moment the liberal nations cannot fail, while suspending judgment, to be on their guard. For history warns us that dictatorship and brutality and the worship of force at home tend in due time to express themselves also in foreign affairs. And, if that is so, and the present Nazi phase becomes permanent, it can only be a question of time before Germany challenges those essential international gains for freedom which were the outcome of the sacrifices of the war.

VI. THE FUTURE

IT is evident that the pleasant assumption which has underlain most people's thinking since 1919 has been rudely challenged. We can no longer take for granted that there is going to be steady progress along democratic lines all over the world, that international trade is destined to recover, that we can maintain the broad type of economic civilisation which has existed hitherto while improving it in detail, and that the nations are going to disarm because they are learning how to solve their differences by pacific means under the Covenant of the League of Nations or the Kellogg Pact. Dictatorship or reaction in some form is now in the saddle over about two-thirds of the world. The prevailing tendency is for nations to become more "autarchic" and self-contained and to move away from international trade.

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If this tendency continues it cannot fail to have profound consequences both in the external and the internal policies of the liberal Powers. However anxious they may be for disarmament, and for lower tariffs and freer trade, they may be forced to admit that the defence of freedom from external menace must become their primary concern. And the drying up of international trade may compel them to a degree of internal economic reorganisation and planning, on lines not unlike those advocated both by socialists and fascists, as the only means of adapting their own economic life to what is going on in the rest of the world.

At the moment, the essential thing is to do everything possible to support the League of Nations and the Kellogg Pact. The League indeed is more important than ever. For however their internal structure may differ it is essential that the nations should continue the habit of sitting round a common table to discuss their hopes and fears and needs. Nothing short of this will bring home to all the necessary limits of national policy, both political and economic, in a congested world. The future of civilisation clearly depends upon the nations developing some system for the pacific settlement of disputes, and some economic organisation enabling nations to live in reasonable prosperity. But if it is impossible to organise the whole world for these purposes then the liberal Powers ought to organise their own portion of it so that freedom and prosperity may be assured within it. What does this mean in terms of immediate policy?

Let us deal first with the economic side. On an earlier page of this article we expressed the view that the principal reason for the catastrophic fall in prices has been the economic dislocation caused on the one hand by one-way international trade made inevitable by international debts, especially reparations and war debts, and on the other hand by new and higher tariffs, embargoes and subsidies, prompted partly by nationalism but partly also by the necessity of countering the detrimental effect of demands for

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reparations and debts, both governmental and private, on domestic industries and currencies. The extent of these debt obligations and their effect on the exchanges is discussed elsewhere in this issue.*

The first object of the liberal and democratic Powers at the World Economic Conference, which is to assemble on June 12 in London, should clearly be to remove or lessen these double causes of depression. It should endeavour to take effective steps to eliminate reparations and war debts because of their effect in producing a purely one-way trade, to restart international lending so as to make possible the payment of private international debts, and of such inter-governmental debts as still remain, to establish some form of stable international currency, to eliminate embargoes and prohibitions, and to reduce tariffs and subsidies for a period sufficient to enable business to make its plans with confidence. If it can do these things, the wheels of international trade will begin to move again, prices will begin to rise, thus facilitating the removal of all other obstructions, and the march towards revolution and dictatorship in the world will be arrested. But the failure of the Conference to achieve results would inevitably throw the world back on nationalism again both in politics and economics, would strengthen the forces which stand for dictatorship and violence, and would have an effect on the internal economic position of even the most stable Powers that no one can foresee. We should then have to consider whether new economic arrangements could not be made over a more restricted area, such as the English speaking world.

Let us turn now to the political side. The best security that the gains of the world war in liberty will be safe and a still further challenge by reaction prevented is a close association between the great liberal and democratic Powers, the United States, the British Commonwealth and France, in defence of the ideas on which their own civilisa-

* See page 535.

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tions are based. And that means the re-entry of the United States into world affairs in some form under the Kellogg Pact.

Some revision of the structure created in 1919 is also necessary. The word "revision," indeed, has already been officially pronounced as an essential for lasting peace. We publish an article elsewhere which describes what territorial revision would involve.* But we think that when the time for revision comes it must include not only those elements of the Peace Treaties which may be unjust or out of date, but a reconsideration of the Locarno Treaties and a clearing up of the interpretation to be put upon the so-called "sanctions" clauses of the Covenant of the League of Nations. Both the Covenant and the Locarno Treaties were drawn up and signed upon certain assumptions which no longer hold good. The Covenant assumed that all the nations of the world would join the League, and that the great majority of the powerful nations would be in active sympathy with its principles. On that understanding it provided for guarantees under Article 10 and Article 16 which involved "automatic" economic sanctions and might involve military sanctions. Such guarantees might be suitable and effective in a League which embraced the whole world. They are obviously impossible in one which does not include Russia and the United States and Japan, and some of whose most powerful members can now hardly be relied upon as enthusiastic champions of its ideals. Some of the principal difficulties of the post-war period have been caused by uncertainties as to the meaning of the sanctions clauses, and as to how far Great Britain alone could make good the defection of other Powers. It is now generally recognised that Articles 10 and 16 no longer possess an "automatic" character. It was formally stated by Sir Austen Chamberlain before the Locarno Treaties were signed that Great Britain could undertake no military responsibility in

* See page 584.

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eastern Europe. And after the rejection of the Covenant by the United States it was made clear by the British Government that it could not undertake economic sanctions under Article 16 if to do so would involve it in a quarrel with the United States over the freedom of the seas. Other nations have taken the same view. It is now generally agreed that the meaning of the Covenant is that it is the duty of members to take any international dispute or threat of war into immediate consideration under Articles 11 or 15, but that they are free to decide what action they should take in the circumstances to defend the Covenant. We think it important that this interpretation should be regularised, partly because we are convinced that Europe cannot and ought not to be stabilised on the basis of any kind of guarantee by Great Britain alone, and it is essential that there should be no misunderstanding on this point, and partly because we think that by far the best security for liberty and peace is that the United States should return to some kind of active participation in world affairs, and because it will be difficult to frame any basis of association between the United States and ourselves so long as there is any kind of automatic commitment to take part in a European war.

It is the same with the Locarno Treaties. These were signed on the assumption that friendly relations could be established between a democratic France and a democratic Germany on the basis of the fulfilment of the Paris treaties and promises. The position has now fundamentally changed. Germany is no longer democratic, and the dominant party in Germany is, to say the least of it, unsympathetic to the ideals both of Locarno and the League—a state of affairs for which France is partly responsible. Further, the principle that Germany is to have "equality of status" has been conceded and if Germany is to be given equality she clearly cannot have imposed upon her in perpetuity a unilateral demilitarisation of part of her territory. On the other hand, if Nazi

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Germany comes to be regarded as a menace to freedom it is absurd that Great Britain should be under any obligation to go to war with France, if, in the event of a conflict, she should be the first to violate the demilitarised zone. This is not the season to discuss the precise form which the revision of the Locarno Treaties should take, but we think that it must conform to one essential condition—it must be one which is accepted by all the nations of the British Commonwealth, and it must be consistent with a consultative arrangement under the Kellogg Pact.

If there is to be a consultative pact with the United States, what should be its basis? It can only be the one set forth by Mr. Stimson in his speech to the Council on Foreign Relations in August, 1932.* The basis therein proposed was that if there was any threat of war there should be immediate conference of the signatories on a basis that, while none of the signatories was bound beforehand to any particular action, "neutrality" in the old sense of the word was out of date, and that they all had an active interest in and a common responsibility for trying to prevent war and for bringing about just and pacific settlements of international disputes. Acceptance of such an arrangement, formal or informal, by the United States would be a far more effective deterrent to war and imperialism than any new European security pacts or any unilateral commitment in Europe by Great Britain alone. We would go further. If after a reasonable period of trial, it should become apparent that there is no real prospect of Europe becoming more stable, or of such a consultative pact as we have suggested, we think that it will be more important, both for our own security and for the peace of the world, that the British Commonwealth and the United States—the oceanic Powers—should come to a naval, political and economic understanding, if necessary apart from Europe, than that Great Britain should go on

* See *THE ROUND TABLE*, No. 88, September 1932, p. 701.

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trying to bolster up a European structure which has no prospect of developing any inherent stability of its own.

It is exactly the same with the British Commonwealth. Since 1919 the problem of inter-imperial relations has been subordinated to the Geneva system. Great Britain has undertaken unilateral obligations in Europe, to which the Americans have not been parties, in the interests of that system. But, if the authority of the League is further weakened and dictatorship spreads, that cannot continue, and the question of inter-imperial relations will come to the fore once again. For in a world in which force may be more important than reason, the power of the nations of the British Commonwealth to support world peace or to defend themselves will depend upon their own unity and capacity to act together. Individually they are weak and liable to be defeated in detail. Collectively, and especially in association with the United States, they would be secure.

There remain the questions of revision of the Treaties and disarmament. The position seems quite clear. The first point to determine is whether Germany and the other advocates of revision want to upset the principles of the Treaty settlement or whether they are merely concerned to remedy incidental injustices and defects in it by consent. If they mean the latter, the whole question of revision and equality in armaments ought to be taken in hand as a single whole without delay, with a view to making a final and agreed settlement. But if by revision is meant throwing the Treaty settlement into the melting pot, questioning the right of European nations to self-determination, the inclusion of majorities of other races in Germany or Hungary or other countries against their will, or transfers of large colonial territories, then the only course for the signatories to the Peace Treaties will be to refuse discussion and to resist any change in the disarmament provisions of those Treaties until a revision has been reached over the whole field which is accepted as final on all sides.

PRESIDENT ROOSEVELT'S PROGRAM FOR RECOVERY

THIS article must leave tomorrow, May fifth, on the *Majestic*. A week will go by before the printer gets it, and there will be another two weeks before it is read. It seems hopeless to try to set down anything here that will be worth reading three weeks from now. For affairs are moving at a swift pace in the United States and the future is quite unpredictable. A review of some of the things that have happened since Mr. Roosevelt took office on the fourth of March will, I think, substantiate that statement, and will lend support to the opinion, held on many sides, that this country is at a turning point in its history. If that should prove to be the case, then those who write the books will begin a fresh chapter with the day when Franklin Roosevelt became President.

On that morning between thirteen and fifteen million wage earners were without jobs. (It is a fact that no one knows, within two million or so, how many unemployed there are.) Every charitable organization in the land was taxed to the breaking point. The public relief funds of many States were exhausted. Farmers were in open armed revolt against the sheriff and the auctioneer. The streets of cities were lined with beggars and blocked with queues of men waiting for coffee and bread. Millions of men and women and children were in terror at what they saw as they looked into the eyeballs of starvation—a mass of patient, beaten, hopeful beings—infinitely patient, cruelly beaten, pitifully hopeful—a black backdrop to the pageant of the inauguration. They understood what the new President meant better than he understood it himself.

Values have shrunk to fantastic levels; taxes have risen; our ability to pay has fallen; government of all kinds is faced by serious curtailment of income; the means of exchange are frozen in the currents of trade; the withered leaves of industrial enterprise lie on every side; farmers find no market for their produce; the

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savings of many years in thousands of families are gone. A host of unemployed citizens face the grim problem of existence. Only a foolish optimist can deny the dark realities of the moment. . . . We must act, and act quickly.

By the night of Thursday, March 2, the bank deposits of twelve States—all the deposits in all these twelve States—lay behind closed doors, safe from the feverish fingers of the people who demanded them back. By Friday morning the number of States had increased to twenty-three; by Friday afternoon thousands of depositors were fighting to reach the cashier's window at the Bowery Savings Bank in New York City, the largest savings institution in the world. By Saturday morning—the day of the inauguration—every bank in Illinois, New York, Iowa, Missouri and Minnesota was shut by Governor's proclamation and every securities market in the country was closed. At one o'clock on Saturday Roosevelt was sworn in. He made his way slowly and without help across the platform. He stood without coat or hat in a bitter March wind. He spoke briefly and bravely. "In this dedication of a nation," he concluded, "we humbly ask the blessing of God. May He protect each and every one of us! May He guide me in the days to come!"

On the next night two proclamations went out from the White House. The first called Congress "to convene in special session at 12 o'clock noon on the ninth day of March 1933, to receive such communication as may be made by the Executive." The second decreed a four-day bank holiday throughout the United States, "and that during the said period all banking transactions shall be suspended." There is no room in these few pages to discuss at length how every bank in the United States got closed. As a matter of fact, the situation was handled so well, and so much has happened since then, that the fifth of March already seems almost as far back in the "white water" of events as the collapse of the Credit Anstalt in the spring of 1931. It is impossible to recount here the

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labors by which most of the banks were re-opened in one week's time : or to write of the various currency expedients proposed in many States, adopted by a few, and then discarded before there was a real chance to try them out. And one can merely make a note of the serenity and sportsmanlike spirit with which the catastrophe was met, and the incredible faith in the President which this attitude attested.

The national banking system collapsed under the combined pressure of domestic hoarding and the flight of foreign short-term balances. An increasing number of inland depositors had sought to protect themselves by getting their hands on hard cash : interior institutions had called home their balances held in New York : foreign depositors caught the fever and converted their banking credits into gold. Uneasiness in the smaller towns and cities was increased by publication of the list of emergency advances to banks which had been made by the Reconstruction Finance Corporation ; doubts concerning the true condition of the big New York financial institutions spread like wind as the result of a Senatorial investigation into the affairs of the National City Bank and the conduct of its President, Charles E. Mitchell. All these small clouds were blown into something huge, then ominous, then filled with thunder and lightning by the declaration of a bank holiday by the Governor of Michigan on February 14. But behind this March madness, and the cause of it all, was the long, slow deterioration of values—the cash values of commodities, stocks, bonds and real estate. The banks collapsed because of the collapse of prices. Thus the spiral of deflation ran its full downward course. Beginning with the stock market *débâcle* of 1929, intangible and tangible goods had been converted into cash because prices were tumbling, the resulting deposits in banks had been converted into currency because of apprehensions concerning the safety of banking institutions, and currency had been converted into gold because of doubts concerning the stability of all paper money except gold certificates.

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The fury of the final stages of the three and a half years' panic may be measured by noting that between February 8 and March 8, in one month's time, the gold reserve declined by \$555,000,000, and money in circulation increased by a billion and three-quarters dollars. On one day alone, Friday, March 3, the day before Roosevelt's inauguration, \$116,000,000 in gold was withdrawn from the Federal Reserve Bank by frantic thousands who brazenly took what they could lay their hands on, and ran—a destructive, disgraceful, and quite comprehensible performance—comprehensible, that is to say, to an American: for we live in a community of 120,000,000 people, most of whom do not realize that a deposit in a bank is a loan. We enjoy a bad banking system, administered by persons who have proved themselves quite inadequate in this crisis. Those of you who live in the British Commonwealth are in these respects more fortunate: therefore, by you, these events may *not* be understood.

Be that as it may, Mr. Roosevelt had to deal with them. On March 9, in the promised "communication from the Executive," he asked Congress to confirm the emergency action which he had taken on the previous Sunday under a wartime Act of 1917. He asked for power to open the closed banks, to license exchange transactions, to control the export of gold, and to refuse demands for it at home. He requested authority to ease the statutory conditions under which a limited amount of new currency might be issued. Before Congress convened, the Secretary of the Treasury had sent out an appeal for the return of gold and gold certificates, presumably in order to increase the coverage behind the national note issues. Three things were then vital: First, to set the financial machinery in motion again; this was accomplished by the gradual re-opening of banks holding 90 per cent. of the nation's deposits, and by providing new currency for these banks where necessary against the pledge of Government bonds. Second, to induce depositors to use their banks once more

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through the Government's moral guarantee that the "sound" institutions which had been licensed by the Treasury to reopen would not be permitted to fail. Finally, it was imperative to establish faith in the eventual convertibility of the new currency into gold, by recalling as much of the hoarded metal as possible into the Government's hands. These things were done, and from the moment that the Administration did them, rapidly, boldly and confidently, it became clear that a new hand was at the wheel. Gold was to be exchanged for currency, first as the result of an appeal, and then, if necessary, by penal legislation; currency was to be exchanged into bank deposits by making the banks safe for the depositor; and, lastly, as the program became clearer, bank deposits were to be exchanged into goods, and this was to be brought about by "reflation"—a deliberate attempt to lift prices from the panic levels to which they had fallen.

II

THE emergency banking legislation requested by the President was passed by the House of Representatives by unanimous vote and by the Senate by a vote of 75-7 as soon as Congress met. On the following day the President requested that he be given full authority to reduce war veterans' allowances and government salaries, and to reorganize government departments. On Sunday, the twelfth, he spoke on the radio, explaining in reassuring voice and in simple words precisely what had happened to the banking machinery. It had been overhauled, and now it might be safely used again. On Monday, after a week's holiday, the first "sound" banks were reopened, and the President, pursuant to his campaign pledges, asked Congress to legalize, and tax, the sale of light wines and beer at once. With these powers in hand, it was proposed to balance the budget—and specifically, to realize what even Roosevelt's admirers had regarded as a campaign phantasy, the reduction of the normal budget by a billion dollars.

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Though some of the legislation for which he asked was delayed for a few days, the national credit was bolstered up by the evident intentions of the Administration, and on the fifteenth of March the Treasury was able to market \$700,000,000 refunding notes at a rate of interest no greater than that which prevailed prior to the banking holiday. Looking back upon these swiftly moving events, one is impressed by the coherence of the President's emergency program and its plain courage. For he over-rode the interests of millions of his people (so they thought) by refusing to let their particular banks open : he grasped the nettle of war veterans' allowances firmly, reducing them by almost half a billion dollars, thereby correcting an evil which no President in American history has dared to attack ; he displeased thousands employed in the civil service by slashing their salaries substantially ; he secured his reforestation program with its wage of a dollar a day at the cost of a fight with the American Federation of Labor ; and he overthrew the "dry" lobby by restoring beer to the country within two weeks of taking office. He showed himself to be master of Congress, master of minorities, master of the situation. He maintained an unequivocal determination to balance the normal budget : by the third of May he announced that in the exercise of powers granted to him, the normal budget was so near to balance that the result was practically assured ; and he reported savings in appropriations of \$880,000,000 with the promise that the final \$120,000,000 would still be achieved.

So far the program was easy to understand. The measures were necessary, they were logical, they were magnificent. But except as the honorable fulfilment of campaign promises, and the provision of a bit of bread and a peep at the circus by way of the beer Bill, and except for supporting that expensive and exacting mistress, the national credit—where was the New Deal ? Beer-making and all the collateral arts, from cooperage to bartending,

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might be advanced and profits might show here and there ; but, after all, four billion dollars stayed locked up in closed banks, and *that* wasn't good for the country. Government spending had been cut down a billion more, and *that* was not good for business. Deflation had brought the United States to the brink of ruin, and the first acts of the new Administration had done nothing but intensify the process. It cannot be said that the prestige of the President suffered. His personal popularity was, and is, enormous. He maintained, through all these first weeks of collaboration with Congress, a power which it was useless to contend with, even if there had been the disposition to do so. And as the rest of his program of reconstruction became known it was clear that the President and his advisors did have a program for recovery—which envisaged measures of relief for the farmers and small house owners whose property was under mortgage, a scheme for the employment of a quarter of a million men in reforestation, a plan for developing the resources of the Tennessee Valley by operating the gigantic unfinished power plant at Muscle Shoals, and a program of public works involving the expenditure of some two billion dollars, calculated to provide work for a considerable number of unemployed. Except for the last of these projects, Congress has either passed the necessary legislation or has it under consideration, with little doubt as to the outcome. Nor is there great alarm in conservative circles over the effect of spending government funds in these ways. Projects which add to the material wealth of the country and its future earning power may not improperly be considered as capital outlay to be distinguished from the budget of current expense. When, too, they put money in circulation, provide work, stimulate industry and restore confidence, they are to be welcomed. But it cannot be denied that the right wing is badly bewildered by the Bill to raise the price of farm products now under consideration by Congress, and thoroughly alarmed by the possibilities of the so-called

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Inflation Bill, which has been attached to it as an amendment. It is significant, they feel, that both houses of Congress have already passed the "dangerous" amendment by overwhelming majorities, even though they have not yet reconciled their differences with respect to the principal Bill. Under the latter measure the farmer, in effect, is to be paid a bounty to reduce his production; but the document embodying this principle contains some eighty pages, and even the most painstaking explanations of its authors have failed to make clear how prices for farm products will be raised thereby. The President has proposed it frankly as a promising experiment, but the failure of similar national and international schemes to control prices makes the success of the Farm Bill very dubious. The intentions of the inflation amendment, on the other hand, are clear, and the story of how it came about may have a bearing upon the uses to which it will be put when the President wields the power which it confers.

The Republican party, controlled as it is by the creditor element in the United States, has always been the party of "hard money." The Democrats, controlled by the debtor half of the electorate, have ever taken the view that a little elasticity now and then never hurt anybody. In 1896, when the currency of the United States was last in grave danger, William Jennings Bryan advocated the use of silver as backing for government notes in the ratio of sixteen units of silver to one of gold. On this issue—the cry of "16 to 1"—he was defeated by McKinley, and for thirty-seven years Bryan's losing slogan has been the synonym for absurdity. During the Presidential campaign last summer Republican speakers tried to frighten the country with warnings against tampering with the national credit. Mr. Roosevelt, then and in his inaugural address, declared for a "sound but adequate currency." Surely his first deflationary acts were "sound"—five billion dollars had been cut off the spending power of the nation. And surely his far-reaching plans for physical reconstruc-

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tion were not alarming. But just at the end of April, with this program apparently working smoothly, he was brought sharply to book by a startling proposal advanced in the Senate. Senator Wheeler, of Montana, had the effrontery to propose a measure for the free coinage of silver, not on any new basis, nor as the result of any plan adapted to present circumstances, but purely upon the notorious Bryan ratio of 16-1. Senator Frazier offered an amendment authorizing the printing of fiat money. Senator Connelly proposed devaluation of the gold dollar. And when a poll on the silver amendment was finally taken, thirty-three Senators voted for it. The proposal was lost by ten votes; but the showing of inflationary strength was a shock, and the manner in which the Democratic Senators deserted their leader to vote for this measure indicated that Mr. Roosevelt had a crisis of the first magnitude on his hands.

It is now agreed that the President met the situation in the best possible way under the circumstances. Faced with the certainty that unless he took quick action he would shortly be confronted with a *fait accompli*, he called Senator Thomas, the leader of the inflationary group, to the White House. They agreed together on a new Bill which would not force inflation by mandatory provisions, but would put power in the President's hands, within his discretion, to use any or all means of achieving higher price levels which had been suggested in the Senate debate. These powers will shortly be at Roosevelt's command: the one question of the moment is, how does he intend to use them? Presumably he will first instruct the United States Treasury through the Federal Reserve Banks to buy \$3,000,000,000 worth of government securities. This amount of cash lying idle in the banks as deposits will presumably be put to work in the shape of commercial credits. This is orthodox finance, but it didn't produce an upturn of business when President Hoover tried it, and may make little headway even with Roosevelt's magic

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touch. The President is further authorized to issue up to \$3,000,000,000 in new paper money, backed by neither gold, nor silver, nor bonds, but by the good faith of the Government. This is unorthodox finance, dangerous *per se*, and likely to lead to further such emissions of money if Congress takes the bit in its teeth again. A color of soundness has been lent to the scheme by providing that 4 per cent. of the total issue will be retired annually by funds appropriated by Congress, and the President's advisors are today considering a new tax which is expected to yield the required 4 per cent. in case he uses the power granted to him. Finally he is authorized to cut the gold content of the dollar down to 50 per cent. of its "present standard of weight and fineness." This violent possibility might ease the burden of debtors, but its repercussions would be severe. It is profoundly to be hoped that nothing will be done under this authority, but if it is going to be done, let's have it over quickly!

What are the prospects? It is clear that the Administration is determined to raise prices. It is probable that the President will use his sweeping powers step by step and with moderation. He is forced to steer the Ship of State between whirlpools of uncontrolled inflation and the rocks of the collapse of his plan. He will have the hard-headed advice of Lewis Douglas, Director of the Budget, at his right hand; at his left he will have Messrs. Raymond Moley, Adolf Berle, Rexford Tugwell, Mordecai Ezekiel and the other Academes who make up his "Brain Trust." They present a strange phenomenon in Washington, these professors, mostly from Columbia University, making plans, refashioning the railroads, reforming the banks, raising wheat prices and the like. But strange phenomenon or no, the President selected them, he has confidence in them, they are fertile in suggestions, they have studied their subject matter for many years, and, oddly enough, they seem to be able to make up their minds. In these latter years nothing has been more noteworthy

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than the utter failure of the bankers to take a leading part in affairs, unless it be the inability of the railroad heads to do more than scratch the surface of their problems. They have abdicated their natural seats of leadership, and they are scarcely entitled to be noticed when they shake their heads over the doings of the "Brain Trust."

III

AT some moment or other in the midst of this whirlwind of events the United States went off the gold standard. It would be hard to say when. Certain people will tell you, with blood in their eye, that it happened on April 19, when Mr. Ramsay MacDonald was on his way to the White House to work out plans for international co-operation. These people seem to think either that an unpardonable offence against a friendly nation was thereby committed, or that the United States, clever and callous, at last secured for itself a major diplomatic advantage. These are the same knowing folk who take you by the buttonhole to tell you that the secret use of the Sterling Equalization Fund is either a menace to the very life of the United States or that it is a triumphant weapon for Great Britain in some vast financial war. It is useful, perhaps, to recall that the United States first went off the gold standard, not on April 19, but on March 6, when every bank in the country was closed, and the holder of convertible currency was no longer able to convert it. After that date, no American was able to obtain gold for his private use, and only a negligible amount of it was specially licensed for export. The gold standard was first abandoned as a result of the bank panic ; feeble efforts to return to it were made during the next succeeding weeks ; the final decision to stay off it for an indefinite period was made in mid-April in the fear that unless such steps were taken a second bank panic would ensue. The pressure of this fear, the ominous social situation in Detroit and Cleveland, the threat of uncontrolled inflationary legislation in Congress,

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all seemed to make it necessary to abandon the gold standard for the sake of being able to return to it at a less troubled time. If the action had been taken during Mr. MacDonald's visit, it would have provoked the deepest bitterness. If taken after his departure, it would have undermined the basis of any agreements which might have been reached. In the view of the Administration it was best to act quickly, not because the British Prime Minister was on his way to the United States, but in spite of it.

This decision has had one ugly consequence. On May 1 the holders of interest coupons attached to United States Government bonds and bonds of private corporations presented them for payment. Almost all these coupons, owing to a provision peculiar to American fixed obligations, were payable "in gold coin of the United States of America of or equal to the standard of weight and fineness existing" on the date when the obligation was contracted. Because of the government prohibition against obtaining gold it was impossible for corporations to meet their obligations as stipulated in the bond. But what is more serious, the Federal Government itself, holder of a huge store of United States gold coin, refused to make interest payments according to the letter of the contract. It must be evident that neither the Government nor private corporations issuing these obligations ever expected that payment of principal and/or interest in gold would be exacted, for the face amount of such securities now outstanding is said to exceed \$75,000,000,000, and there is scarcely one-sixth of this amount of gold above the surface of the earth. Nevertheless it is contended that the Government of the United States is not thereby excused from literal performance, and that private obligors, if they really wish not to evade their obligations, should pay in current funds, in addition to the face amount of the coupon, a certain number of dollars reckoned by the percentage of decline which the dollar has suffered *vis-à-vis* a gold unit such as the French franc. When holders of coupons did ask for excess dollars on this theory, they were denied them. In France and in

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England the United States Government is being accused of repudiation. This is a grave charge. It is no answer to reply "that the United States has not, in fact, done one single thing which foreign governments, almost without exception, have not done first and in greater degree." It is true that when francs depreciated, the foreign owner of francs suffered a loss ; that when Great Britain went off the gold standard many a foreign holder of sterling lost a considerable part of his purchasing power in terms of his own domestic currency. But the French Government did not contract to maintain the parity of the franc, nor did Great Britain engage herself to remain on the gold standard. How this obligation of the United States Government will be construed by appropriate authority remains to be seen. It will be time to characterize our "May Day" action when the Supreme Court of the United States, or an international tribunal, has decided how the express obligation must be met. While we await this opinion it will become clearer than ever before to many of us living in the United States that certain other nations, owing money here, cannot pay in gold the sums they have contracted to pay in that medium.

But the war debts, it is said, are not to be discussed at the Economic Conference to be held in London. Mr. MacDonald has said so, and his statement has not been qualified by Mr. Roosevelt. Surely an understanding must have been reached that the United States will permit the fifteenth of June to go by without insisting on payments then due. It is not conceivable that the Conference could have been advanced from the end of June to the twelfth of the month, with the approval of its Chairman, unless some such agreement exists. Otherwise, in the first three days of its existence, the assembly would expire from a surfeit of lampoons.

It remains to be seen what other results were accomplished, and are now being accomplished, by the preliminary conversations held in Washington at President Roosevelt's invitation. The atmosphere seems to have been good ; per-

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sonal relationships that have been established are bound to be helpful in the long run. Optimistic communiqüs have been issued, but they have little meat in them. No doubt the most favorable view is this : that the principals agreed on the need for a general increase in commodity prices and upon certain practical steps to be taken, jointly, to bring about that result in both the economic and the monetary fields ; that a broad understanding was reached that war debt payments should be alleviated and that tariff barriers must be lowered. And lastly, it is possible that the new President of the United States gave indication of a new policy in international affairs—that of active collaboration in the economic sphere on a scale not envisaged heretofore.

But if these most encouraging conclusions were indeed reached, they have been considerably shaken by certain happenings since Messrs. MacDonald and Herriot left these shores. Europe rages at the "repudiation" of the gold obligations of the United States Government. We, I regret to prophesy, will be equally voluble over the gigantic increase in the Exchange Equalization Fund which Parliament granted to Mr. Chamberlain today. These are vicious obstacles to better understanding : both of them retard such microscopic progress as we are making. All of us, as Sir Walter Layton has said, are prepared to will the common end, but for the very life of us we cannot will the means to that end.

There was a moment in the history of the American Continental Congress when the independent tendencies of the colonies in their dealings with each other threatened to wreck the political independence of them all. Benjamin Franklin brought them to their senses. "If we don't hang together," he said, "we shall hang separately." Perhaps the Economic Conference could be opened with a discreet animadversion to this idea, with a dash of prayer thrown in. For we have arrived at precisely that state in the affairs of the world.

The United States of America.

May 4, 1933.

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NOTE

SINCE the above article was written President Roosevelt has sent a message to the 54 States taking part in the Disarmament and Economic Conferences. In it he points out the extent to which "the happiness and prosperity, the very lives, of the men, women and children who inhabit the whole world are bound up in the decisions," and the need of the decisions being come to quickly. He refers to the dangerous clash of confused purposes at the Disarmament Conference. "Our duty lies," he says, "in the direction of bringing practical results through concerted action based upon the greatest good of the greatest number . . . Petty obstacles must be swept away, petty aims forgotten." He sees two reasons for the reluctance to give up excessive armaments: the first, the desire, "disclosed or hidden," which, he believes, only affects a small minority, to enlarge their territories; the second, a fear of aggression—a fear for which he recognises the justification. "Modern weapons of offence are vastly stronger than modern weapons of defence." "The ultimate objective of the Disarmament Conference must," he adds, "be the complete elimination of all offensive weapons. The immediate objective is a substantial reduction of some of these weapons and the elimination of many others."

"There are," the President considers, "three steps to be agreed upon at the present discussions: (1) To take at once the first definite step towards this objective as broadly outlined in the MacDonald plan; (2) to agree upon the time and procedure for taking the following steps; (3) to agree, while the first and following steps are being taken, that no nation shall increase its existing armaments over and above the limitations of treaty obligations."

He proposes a fourth step: "That all nations of the world should enter into a solemn and definite pact of non-aggression; that they should solemnly reaffirm the obligations they have assumed to limit and reduce their armaments, and, provided that these obligations are faithfully executed by all the signatory Powers, individually agree that they will send no armed force of whatsoever nature across their frontiers." "Common sense," adds the President, "points out that if any strong nation refuses to join with genuine sincerity in these concerted efforts for political and economic peace, one in Geneva and the other in London, progress can be obstructed and ultimately blocked. In such an event the civilised world, seeking both forms of peace, will know where the responsibility for failure lies."—EDITOR.

NAZI GERMANY

I. METHODS AND THEORIES

THE so-called National Revolution in Germany throws a disquieting light upon the potentialities of propaganda in an age of rapid development. Propaganda, thanks to scientific improvements, provides an instrument capable of influencing, for good or evil, the lives of a teeming world population, just as easily as those of small populations used to be influenced by more primitive means in a simpler age.

The Hitler upheaval owes more to propaganda than any similar movement. The Bolsheviks had completed their revolution before they learnt the uses of propaganda. The Italian Fascists met with real opposition, and had to expose themselves to danger. But the Nazis had merely to create the appearance of a menace to secure the acquiescence or passivity, first of the aged President and the minority in power, and then of, say, half the electorate, for the purpose of ferocious measures which only panic caused by fear of an unprecedented national catastrophe would have been felt to justify in any less emotionally gullible country. The Nazis accomplished their object by propaganda, and it is a nice question whether we should recall with pride or with regret that it was we ourselves who taught them the trick. It was our own war propaganda that first showed them the effectiveness of such a weapon. They have always acknowledged their debt to us and, with characteristic thoroughness, they set themselves at an early stage to learn their lesson.

Their studies were destined to produce a genius. The Governments of the Weimar republic had, in their own efforts, to comply with accepted standards of accuracy and to take into account the existence of an intelligent, well-informed public opinion abroad. No such trammels impeded Dr. Goebbels, the present Minister for National

Methods and Theories

Enlightenment and Propaganda and the architect of the Nazi "Third Reich." His experiments were only upon his own countrymen, and he acted upon the old principle that one may as well be hanged for a sheep as a lamb. He was suppressed at times, but never for long. Restrictions were astonishingly elastic in the days of the old republic.

The National-Socialist movement was worked up by an unceasing campaign of what can only be compared with religious revivalism. The method was to play upon the feelings of a people inherently susceptible to mass suggestion, and rendered more subject to emotion by under-nourishment, strain and other hardships during the war and the inflation. The Treaty of Versailles was the most valuable tool in the agitator's bag. To it was ascribed blame for a sense of undeserved national humiliation and undeserved social misfortune, the last attributable more especially to the reparations clauses. President Wilson's fourteen points, and the sanctimonious wrappings of the Peace Treaties, made it a simple enough matter to hypnotise crowds, vaguely conscious of grievances, into overlooking the hard fact that they had lost the war, and later that the whole world, not only Germany, was suffering from economic depression and passing through a social crisis. Whatever the faults of the Treaty—and they were great—they became magnified out of all proportion. Thousands listened with uncritical enthusiasm while Herr Hitler poured forth airy promises of a mystical national resurgence, and promised remedies for the social grievances of every one of his listeners. The effect was enhanced by brilliant stagecraft, and as the hysteria grew, the figure of the prophet stood out more and more luminously, and what he actually said mattered less and less. Last May Day was a good illustration of the method.

The Hitler legend once established, there was no difficulty in transforming the impersonal hatred of the Peace Treaties imposed by the foreigner into a venomous personal

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animosity against those sections of the community at home which had to be dislodged before the Nazis could hope for power. It was easy to brand the supporters of the Weimar constitution as the accomplices of the oppressor. Had they not been forced to face facts and to make some attempt to fulfil their country's international obligations? Anti-Semitism fell naturally into place in the programme. Democratic conditions under the republic gave free scope to ability, and the Jews—already to some extent encouraged by Wilhelm II—attained a prominence in the political, commercial and artistic world out of all proportion to their numbers. They thus became identified with "the system," as the republican regime was called.

There were scandals and corruption under the republic, as under most governments; but they were exaggerated and distorted, and the average Hitlerite became firmly convinced that practically no one who had been officially connected with "the system" could possibly be honest. Pacifists the Nazis were taught to look upon as international in outlook and therefore disloyal to the cause of national regeneration. Communists, socialists and democrats alike were guilty of pacifism as well as "Marxism," and therefore doubly traitors. Jews, besides being profiteers and bloodsuckers, were mostly communists, socialists and democrats, and those of them who dominated literature, art or the stage were "intellectual Bolsheviks," who had contaminated clean, solid German art with clever decadent foreign ideas. There was clearly some foundation for the demand for a purification of the national life. But licence here and there was hardly a reason for sweeping genius wholesale into the dustbin.

The Nazi appeal to the discontented was the more effective for being presented by the discontented. Many of those who gathered round Herr Hitler in the early days, and later became subordinate leaders, were formerly officers or non-commissioned officers whose occupation had gone

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with the close, if not of the war, of the turbulent period of free corps and "Black Reichswehr" activities. Many of them were soldiers of fortune both in type and temperament, whose record had been far from exemplary in those irregular forces which accepted brutal hole-in-the-corner murder, in the name of patriotism, as "execution." These men, turned street corner orators, had not only the discontent of their own class to work upon, but that of the younger generation, which, thanks to the economic depression and the abolition of compulsory military service, was for the most part unable to find anything to do. It is remarkable that any idealism at all should have survived in the ranks of the Brown army, whose instructors were in their element inflaming the minds of their youthful hearers with theories of the systematic application of violence for vengeance sake, which they confused with the virtues of patriotism and manliness, and with the traditions of Frederick the Great and the War of Liberation against Napoleon.

This summary of Nazi methods may be challenged as doing less than justice to the measure of sincerity which undoubtedly underlies the movement. Yet both Herr Hitler and Dr. Goebbels, the first in a paragraph that has been cut out of later editions of his book, and the other in an inadvertent revelation in a public address, have admitted, from their own experience, the necessity—for the good of the people, of course—of exaggeration and misrepresentation in the building up of a popular movement.

II. THE NAZI-NATIONALIST COALITION

BY the summer of 1932, nearly 40 per cent. of the electorate had been carried; but Herr Hitler scorned coalition, and demanded all or nothing. Yet an absolute majority seemed a long way off. The violence after the July elections, especially the disgusting murder of Potempa

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in Silesia,* even caused a setback, and some two million votes were lost by the end of the year. The decline continued until chance and human weakness unexpectedly combined to bring Herr Hitler what he wanted. It cannot be too plainly stated that the Nazis first obtained power by an accident, and not because the majority of the electorate wanted them.

General von Schleicher, in his efforts to force the then Chancellor, Dr. Brüning to accelerate his pace, started in 1931 a system of "palace" intrigue which was to be his own undoing a couple of years later. The President, who in the summer of the following year was staying in East Prussia, and, as octogenarians are apt to do, becoming more and more susceptible to the influences of his early environment, was persuaded that the Chancellor was contemplating the introduction of a sort of "agrarian Bolshevism," because he had proposed that hopelessly insolvent large estates in eastern Germany should no longer be kept going by endless State subsidies, but left to the normal working of economic laws, which meant that they would in due course be sold and converted into small holdings, a result which was widely agreed to be desirable. Dr. Brüning, who could still rely upon a parliamentary majority to prevent the repeal of the measures he decreed, was trying to develop constitutionally a less clumsy form of parliamentarism than the one created at Weimar. He had, moreover, plans for bringing the Nazis into the government under safeguards. Early last summer, however, he was virtually dismissed by the President.

With him fell the last chance of saving parliamentary democracy. After his fall, the Junker-Nationalist group, a small minority, with Herr von Papen, who enjoyed the President's personal confidence, as Chancellor, took office. General von Schleicher had not, it would seem, meant things to go so far ; but he made the best of the situation

* For full particulars of the Potempa case see *The Times* of August 20, 22, and 23, and September 3, 1932.

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and became Defence Minister, though he remained in the background, leaving to Herr von Papen the responsibility—the rope with which he could hang himself. This, in five months, Herr von Papen did, though not, as it turned out, beyond all possibility of revival. His government did not obtain the support of more than a tenth of the electorate in two successive Parliaments, and he refused to meet either of them. By giving the Nazis, however, a freedom of action which they abused, then by suppressing disturbances with a strong hand, and finally by snubbing Herr Hitler in the negotiations for a coalition, he checked the Nazi advance for the first time, and even forced it to retreat. But at the same time he antagonised Labour and drove many people who were not really Communists at heart into the Communist ranks. His isolated position finally became intolerable and the President, despite his unbroken personal trust in Herr von Papen, had to appoint General von Schleicher Chancellor.

The general's outlook was still much more akin to Dr. Brüning's than to von Papen's. As a soldier of the younger school he had a keen sense of the importance of the trade unions, upon whose members the munitions supply would, in the last resort, depend. He hoped, moreover, by way of the unions to link up with the Nazis and to elbow out Communism. The fact that he had taken the place of von Papen began indeed to check the increase in Communist numbers. But it was too late. Von Papen and the Junkers could not forgive him. Now that he was Chancellor, he found his predecessor, together with Colonel Oscar von Hindenburg, the President's son and A.D.C., in full possession of the President's ear, and himself, who had once shared it with them, left out in the cold. They overthrew him before he had a real chance, by the methods he had himself taught them, and for the very faults with which he had credited Dr. Brüning—hesitation and a failure to take dramatic action.

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Partly from fear that the Army might rally to the general's aid—there was no lack of rumour—Herr von Papen, Herr Hugenberg, the Nationalist leader, and the Nazis stamped themselves and the aged President into agreeing to a coalition of "national concentration," with Herr von Papen, who alone had the necessary influence to move the President, as the leading spirit. The Nationalists imagined that they could control their new Nazi allies (whom they had been fighting furiously only a few months before), and harness the "national" half of the National-Socialist spirit to a nationalistic, and perhaps even a monarchist, revival.

Dis aliter visum. Herr Gregor Strasser, the intermediary through whom General von Schleicher had hoped to link up trade unionism with the Nazis, and the most moderate and constructive of the Nazi subordinate leaders, had already been suppressed. Herr Hitler and his friends, probably not without reason, feared a trap. They preferred to make one more effort to rally the movement in the hope of securing undivided power, in spite of the decline of their influence. Fortune always favours the brave. Herr Hitler was, so to speak, in the act of walking away from the Wilhelmstrasse pondering over his plans when Herr von Papen unexpectedly called him back through the back door into the Presidential residence. Though still suspicious, he decided to take the risk when he saw that General von Schleicher had been eliminated, and that the Junkers and Nationalists were in a flutter. The proposed coalition after all offered him a chance of getting possession of the country without a fight if he played his cards well. He accepted. It was to be a test of cunning, and anyone less serenely self-confident than Herr von Papen would have hesitated before venturing to come to supper with the Nazis with such a very short spoon. As fanatically inspired, in his own way, as the Nazi leader himself with the conception of a national rebirth, and full of hope that he would be able to make use of the "national" side of

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Naziism, he disregarded the risk of the "socialist," in some respects the almost Bolshevik, side getting out of hand. With the landowners and the industrialists, irredentism and hatred of international Labour were as ever the ruling motives.

A Nazi-Nationalist Government, with Herr Hitler as Chancellor, was formed on January 30, 1933, and Herr von Papen, now Vice-Chancellor and still the most influential adviser of Field Marshal von Hindenburg, completed his Prussian *coup** on constitutional pretexts which, in spite of their flimsy character, apparently satisfied the President. Captain Göring, the Nazi fire-eater, at the instance of Herr Hitler and despite warnings from his Nationalist colleagues, was appointed Deputy Commissioner of the Interior, nominally under Herr von Papen as Chief Commissioner for Prussia. It was then that the latter began at last to realise what, to use a colloquialism, he was up against. He had not only retained the chief position in Prussia for himself, but he had also to all appearance safeguarded the future of the Junker-Nationalist group by obtaining a promise that the Nazi element in the Reich Cabinet, then in a minority, would not be increased after the general election to more than half. Yet, it was all in vain. The Nationalist hold both in Prussia and in the Reich Cabinet was soon undermined. Captain Göring consulted Herr von Papen less and less about the reorganisation of the Prussian administrative services; some Nationalists, but far more Nazis, were appointed to executive posts and Captain Göring soon had the police under his own thumb. The revolution was gathering momentum, and it was to be not merely a "National" but a "National-Socialist" revolution.

The reign of terror began in earnest, in Prussia at any rate, several weeks before the general election. In previous years there had been provocation on both sides in the street

* Herr von Papen seized Prussia in July, 1932, on the ground that the Prussian Government could not keep order.

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feuds. With the Nazis in power and the Brown Army a sort of privileged force, the provocation became one-sided. S.A. columns,* accompanied by police, made demonstrative marches through Communist districts. On one occasion —the very day that the Government's accession to power was being celebrated— a policeman with proletarian sympathies and a Nazi, not particularly popular among his comrades, were mysteriously shot. This provided the material for the flamboyant State funeral in Berlin which was designed to accentuate the officially encouraged fraternisation between the Nazis and the police. Elsewhere there were similar incidents and the Nazis exacted far-reaching vengeance. Police who attempted to check them were reprimanded and, as early as February 21, Captain Göring issued his notorious order to the police to make a ready use of their firearms in the campaign against "Marxism" (which, it had already been announced, would be conducted with "brutality"). He instructed them to give every support to the patriotic organisations, which meant primarily the brown-shirts. He had already on February 15 informed the provincial governors and chiefs of police confidentially that the S.A. and the Nationalist Stahlhelm were to be armed and used as auxiliary police. It was pretended that no more was contemplated at the moment than the enrolment of a few storm troopers and Stahlhelmers to help to keep order at provincial election meetings. But a few weeks later S.A. men (not only auxiliary police) were strutting about the streets everywhere with big revolvers in their belts, and sometimes long knives stuck in their top-boots.

This is a characteristic instance of the sort of misrepresentation upon which the whole operation of seizing the country was based. Ever since Herr von Papen's Prussian coup, official statements, assurances and denials had become steadily more ambiguous, until intelligent political circles had ceased to take them at anything like their face value.

* Nazi brown-shirt storm detachments.

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But the ingenuous ambiguities of the Papen régime were child's play compared with what came later. And they were by no means unknown in the early days of the Nazi movement. At his trial after the abortive Munich *Putsch* of 1923 Herr Hitler, when asked whether he had not broken his word, admitted that he had done so "for the Fatherland." Herr Strasser had made a similar admission in a public trial, and declared that he would break his word again for the sake of the Party. Often, it must be admitted, the official assurances were so subtly worded that disregard of them might later be defended if anyone thought of challenging them. For instance, Bavaria was told again and again that there would be no Reich intervention so long as law and order were preserved. They were preserved, but when every other State in the country had been taken over on the pretext of disturbances, there was some ground for the claim that, owing to the possibly uncontrollable impatience of Bavarian Nazis, law and order might be endangered and intervention was therefore justified. There was always a pretext which, however flimsy to start with, became overwhelmingly convincing to the fanatical or simple minded, when it had been through Dr. Goebbels's propaganda machine.

Dr. Goebbels' kept pace with every advance. Most of the pioneer work was indeed accomplished by him, and later on, when his department became a Ministry, his propaganda became more and more indispensable as the lack of constructive thought among the National-Socialist leaders grew more and more apparent.

III. THE TERROR

THE general election took place on March 5. It was meant to give a semblance of popular confirmation to the minority government's dictatorship and to the relentless turn of the wheel by means of which, on one pretext or another, it was thrusting the Weimar republican régime

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under. Both Nazis and Nationalists boasted that they intended to remain in power whatever the result; nevertheless, the Nazis at any rate wanted the reassurance of a majority. It might be awkward, they felt, if the President were to cause difficulties and leave no other course open to them but a *coup d'état* against himself, especially as they were by no means sure of the Army, of which he was the supreme head. The Nazis also wanted to underline again their numerical superiority over their Nationalist allies.

The administrative machinery, especially in States where it was under direct Nazi control, was made the utmost use of for the purposes of intimidation. Communist, Socialist and even Democrat and Catholic Centre newspapers were suspended and Opposition election meetings broken up on the slightest pretext. The daily incidents, in which real or apparent violence against, or obstruction of, uniformed Nazis was followed by disproportionate retribution, had a way of ending in the incapacitation of leading Opposition orators and organisers. But despite all this, and notwithstanding the strenuous oratorical campaign of Herr Hitler and his staff, the feeling persisted, even in government circles, that the Nazis and Nationalists together were hardly likely to obtain the coveted 51 per cent. of the votes. It is beyond question that in some quarters, with or without the full knowledge and approval of the leaders, an act of provocation on a striking scale was under consideration. Indications too serious to be disregarded pointed to the probability of a simulated attempt on Herr Hitler's life which would provoke a spontaneous or partly spontaneous outburst of fury among his followers, leading, it might be, to something in the nature of a massacre, in which not only the Jews but marked leaders of the Opposition would suffer. It was never quite clear whether the outbreak was intended to precede and influence the election, or to cover a *coup d'état* in case of defeat at the polls. Alarming reports found their way into the press of many foreign countries, pointed questions were asked in foreign parliaments, and the abhor-

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rence with which, whatever the pretext, any such outbreak in a civilised country, disposing of large disciplined forces, would be regarded in the rest of the world was made plain. Owing perhaps to such warnings, the Nazi terror did not take the form of concentrated violence, though it might not be unreasonable to wonder whether in the long run the death roll will have been very much, or the accumulated suffering at all, less considerable under the systematic but attenuated reign of savagery which developed from that time and has continued ever since.

The sense of strange happenings was nevertheless in the air, and to many who had followed political developments closely it came as no great shock to see the central dome of the Reichstag glowing orange with seething flames on the Monday preceding the elections. The fire was unexpected, yet the mind was prepared for something at least as spectacular. That an act so senseless—politically so suicidal—should have been planned by leading Communists or Socialists, and carried out in such a way that there remained nothing for the police to find except an alleged Dutchman with a dubious communist past, who, though only half clothed, retained compromising papers, including a passport with the name spelt in the German and not the Dutch way, was found hard to accept even by many intelligent supporters of the "National Government." The alleged incendiary, van der Lubbe, was not allowed to be seen even by the official representatives of his alleged country; nor was there any sign of his being brought to trial two and a half months after the event.

Fantastic though the official story was, no direct evidence has become available in support of the theory, not unnaturally advanced by sceptics, that leading authorities, such as Captain Göring, were aware in advance of what was going to happen. But if it had been in their minds, they could not have exploited it more swiftly and effectively. At 2 a.m., some three hours after the fire had been got under control, a summary of the drastic measures which Captain

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Göring was going to impose in Prussia was already being released to news agencies, though it was withdrawn temporarily after a few moments on the ground that alterations had still to be made in consultation with the Reich Government. Nevertheless, although a Reich decree for the protection of the State, suspending the constitutional guarantees of the person, was promulgated the next evening, the almost hysterical Prussian declaration indefinitely suspending, not only the Communist but the whole of the Socialist press in the State, on the ground that van der Lübbe had admitted his connection with the Socialists as well as with the Communists, was published on the same Tuesday morning. Yet, according to police statements, van der Lübbe himself, after an all-night examination, in which he obstinately denied having had any accomplices, had fallen into an exhausted sleep and was not questioned again until the afternoon. It was hard to understand how his alleged confession of Socialist associations (which was in any case admitted by the investigating authorities later to have been without foundation) could have been available before 2 o'clock in the morning, when Captain Göring's decision to suppress the Socialist press was let out.

To justify Captain Göring's measures the Reichstag fire episode was combined with "material" disclosing widespread plots for a Communist rising, alleged to have been seized by the police in "catacombs" (in reality extensive but not abnormal cellars) in the Communist headquarters, which had previously been searched repeatedly by the police. Official promises of ample publication of the "material" were not fulfilled as the weeks went by. Parts of the alleged brief extracts disclosed corresponded almost word for word with passages in well-known Bolshevik works long since published, including an outline of revolutionary methods written by Lenin at least a decade ago and obtainable in a paper edition for 1 m. 60. Nor, despite occasional discoveries of stolen explosives and the like, were the police able to find convincing evidence of the supposed prepara-

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tions for a Communist outbreak timed, according to Captain Göring's statement, for that very Tuesday. In Germany, which is nearer to Russia than the Western Powers, and which still remembers Kurt Eisner, there is an ever-present fear of Communism. But the German Communist movement, though numerically strong—there were 90 Communist members in the last Reichstag—had never been dangerous, being absolutely destitute of leadership and initiative, and a revolt was the last thing it was likely to have in hand at this particular juncture, when the forces against it were exceptionally powerful and ruthless.

Nevertheless, the pretext for an accentuation of the existing Nazi terror was there, and the means had already been provided by the arming of the S.A., and by the previous orders which, in effect, rendered whatever they might do no longer of concern to the police. The Reich decree, providing for the arrest of all Communist deputies, was easily and rapidly extended—especially in Prussia—so as to rope in all persons in any way prominently associated with communism, the Social-Democrats, *i.e.* the moderate labour party, the democratic or liberal movement, and, above all, with pacifism. Those who were arrested by the regular police considered themselves lucky. The uniformed Nazis, often unaccompanied even by comrades who had been appointed auxiliary policemen, had their own lists of "suspects." Victims were knocked up, usually in the middle of the night, by armed groups who, if kept waiting, would often break in the door. If not maltreated on the spot, they were forced at the pistol's point to enter motor cars and driven to "Brown Houses," as group headquarters are often called, or, in outlying districts, to small beer houses used as Nazi rallying places. There prisoners were kept for several days, sometimes much longer, flogged with horse whips, sticks or steel rods, made to do physical drill, to spit upon their party symbols and abjure their principles, and in other ways physically tortured and mentally humiliated. Sometimes they died. In the early stages the

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bodies, like those of victims upon whom direct vengeance had been taken, were found lying in the countryside, to become insoluble cases for police investigation. Later, they were sometimes disposed of through public mortuaries, where officials were terrorised into supporting official versions of accident or suicide.

Some of the more badly injured prisoners were delivered to hospitals and police infirmaries, where they either died, or if they recovered, were discharged straight into custody. Methods varied—there were cases in which men with mutilated faces and bodies were released, to crawl back to their homes broken in spirit and terrorised into silence by threats of dire retribution. Happier were those who, after a day or two in a Nazi cellar and a straightforward beating, were able, after medical attention or a spell in bed, to resume their ordinary lives. Releases, however, became rarer when it was found that there were still men who had the courage to tell of their experiences, or to address sworn statements to the Public Prosecutor. The usual fate of the prisoner after examination in a Nazi place of detention was to be handed over on a vague political charge to the regular police, who did not ask the date of his arrest or what might have happened in the interim. He would eventually find himself in one of the big concentration camps with thousands of other political prisoners.

Besides the physical suffering inflicted, very numerous instances in which individuals were deprived of their livelihood on account of their opinion or their race must be remembered—cruelty may take many forms.

This is the plain truth about the terror in Germany, which has continued along much the same lines up to the present day. The British public find it hard to understand that such things could happen in a civilised country. But these things have been happening in Germany, and the terror was at no time the work of ungovernable bands of revolutionary youth. It has been carried

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out systematically and in cold blood from the beginning. The so-called revolution was accomplished without any fighting worthy of the name. Within a week of the elections even occasional hostile shots in working class districts had virtually ceased. Nowhere had there been organised resistance on any scale, and the main operation of seizing the power in one federal State after another was carried out without bloodshed on the constitutional pretext that the authorities in office were incapable of maintaining order, or unwilling to apply with sufficient rigour the decrees for the suppression of Marxism.

It is doubtless because this disagreeable form of revengeful bullying was so patently unnecessary that such pains have been taken to deny it and to suppress evidence. The lid has been so tightly screwed down on the truth that nothing unauthorised can be published in the German press. The Government has cleverly avoided formally expelling foreign journalists, but pressure is exerted on them in various ways. The publication of accounts of any kind of maltreatment, if not supported by full evidence, can, under the elastic laws now prevailing, be made the basis of a charge before a special court, of "spreading atrocity propaganda injurious to the State," or something to that effect, against both writer and informant, and six months to a year's imprisonment may result. Moreover, any German victim even suspected of having divulged his experiences must expect immediate rearrest by the S.A. and worse treatment than before, so that the mention of names, or a recognisable description of an individual case, is almost out of the question. Skilful manœuvres have secured the unostentatious withdrawal of several foreign correspondents from the country.

When, in the case of persons too prominent for their fate to be hushed up, it is announced that, after their arrest, they have had to be taken to hospital "on account of illness," experience fully justifies the interpretation, in the absence of further details, that they have been seriously mishandled

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after their arrest. Such an announcement was made after the raids on the Trades Union offices on May 2, in which the S.A. were authorised to take part, a striking instance of the slight value to be placed on apparently reassuring regulations like the one which had just officially withdrawn from the S.A. the right to make arrests. The Terror, in its later stages, may have received rather more sanction from the law in the form of decrees since the Reichstag gave Herr Hitler carte blanche, but there has been no sign, in spite of the frequent assurances given by Ministers, of any serious attempt being made to stop it. The prevailing spirit was revealed by Captain Göring when, in a savage speech, he recalled the fact that their followers had been promised "a settlement of accounts" and declared that the promise was being kept. This, and his assumption of personal responsibility for every bullet fired by those under his control, clearly set the pace for the average Nazi, and his statements were not by any means ousted by Herr Hitler's mild manifestoes in March, which may be fairly summarised as amounting to an assurance that practically nothing had happened; that in any case it was mostly the work of *agents provocateurs*; and that the S.A. must desist from such "individual actions." The extent to which further legislation may be expected to improve matters can be judged by the fact that one of the most notorious of the Nazi places of detention in Berlin, the one in the General Papestrasse, has from the first been the headquarters of an auxiliary police unit and as such presumably a legal police station; yet the methods employed there have not differed from those of the S.A. quarters in the Hedemannstrasse and elsewhere. Prisoners dealt with there have been given formal discharge certificates bearing serial numbers running into hundreds signed on behalf of S.A. "auxiliary" or "field police."

The Jewish Boycott

IV. THE JEWISH BOYCOTT

AMONG the early victims of the Terror were many Jews, especially "intellectuals," lawyers and doctors, but they were at that time involved, not primarily as Jews, but because of their real or alleged association with the communist, socialist or pacifist movements. It is quite a mistake to imagine that the persecution of the Jews as such has been the chief aim of the Terror. This false impression abroad is due to the stupendous publicity given to the notorious boycott of April 1 by the propaganda ministry. By that time the coveted 52 per cent. of the votes had been obtained by the Nazis and Nationalists together at the general election, if not by direct intimidation or manipulation at the polls, largely as a result of the terror in Prussia and of raising the communist bogey among the simple peasants of Bavaria, who still had memories of the brief Soviet régime after the war. The whole country was in the central Government's hands, the solemn National Pageant had been staged at Potsdam on March 21, and the Government had obtained a free hand for four years from a truncated Reichstag. There were no constructive measures in hand, and in accordance with the plans decided upon, it was the business of Dr. Goebbels's propaganda department to provide fresh distraction for the populace. Ugly reports were getting abroad about the Terror. A ferocious anti-Semitism had been preached by Herr Hitler and his lieutenants for years.

A brilliant scheme was hit upon for killing several birds with one stone. The survivors of the German press—now, after the elimination of the communist and nearly two hundred socialist newspapers, rendered almost entirely subservient—made much of certain atrocity reports published by irresponsible papers in the United States and, it was vaguely alleged, in Great Britain. Such reports were

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also said to have been spread by Jewish organisations abroad. They told of hands chopped off, eyes put out, Jewesses raped and similar atrocities reminiscent of the war-time allegations against the Germans in Belgium. They cannot have been very widespread, as they did not appear in responsible newspapers ; the Nazi Terror had taken disagreeable forms, as has been made clear, but there had been no authenticated evidence of these particular types of outrage. The impression was, however, given that the whole foreign press, especially newspapers under Jewish control, was conducting an exaggerated atrocity campaign, and the German public was worked up into an anti-Semitic fury for which an officially organised boycott of Jewish shops was provided as an outlet. Anti-German boycotts of small extent organised by Jewish communities abroad provided fuel for the flames. Once the Hitlerites—and others who did not require much stimulation—had been aroused, it was a simple matter, despite the nominal calling off of the boycott after the first day, to set relentlessly in motion the whole programme for the removal of Jews from public offices, from the professions and from art, business, and indeed from every kind of employment. At the same time the German anti-atrocity propaganda succeeded to some extent—by contrasting exaggerations with the few “excesses inevitable in time of revolution,” which were all that the Government would officially admit—in drawing the attention of foreign opinion away from the genuine Terror.

V. FUTURE PROSPECTS

THE persecution of the Jews has since proceeded steadily, together with the establishment of Nazi control over all branches of intellectual life, industry, commerce and organised labour, the preliminary steps to the absorption of the Stahlhelm and the relegation of the Nationalist-Junker group to a subordinate position in the Administration.

Future Prospects

At one time the hopes of those who were dissatisfied with Germany's new masters—the hopes even of the Socialist workers—were centred in the belief that this group would not tamely allow itself to be brushed aside and might, with the support of the Stahlhelm and the Army, make a bold bid for a Hohenzollern restoration—anything for a change from the present order of things. Field Marshal von Hindenburg, it was believed, could not, if he really knew what was going on, fully approve. And although he has probably to a large extent been hoodwinked, like so many of his countrymen since the suppression of the newspapers likely to enlighten them, there have been some indications that the venerable President may have seen more of what was happening than his actions would suggest, and that he is remaining at his post with a purpose. Possibly there may yet be a call for his services. It may be, too, that the Army, which its successive commanders have sought to protect from political influence, is still biding its time, though here again it may be that its inaction means that it has already been too much affected by the Nazi spirit to move. At any rate, opportunities for a restoration, such as the emotional occasion of the Potsdam ceremony, slipped by without any action being taken.

It will no doubt be asked, what is to be the fate of Dr. Brüning's party, the *Zentrum*, which has always played such an important part in German politics? No answer can be given to this question except that the Centre party has hitherto weathered the storm by bowing before it, in the hope no doubt of some day influencing things for the better, by obtaining concessions in return for the loan of its experience, at the same time retaining cohesion so as to be able, should occasion offer, to take the lead. It will, at any rate, have the advantage of first-rate leadership. Dr. Brüning, the one outstanding figure from the former régime, has just become its chief.

The dominant fact at the moment is that all along the

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line the Nazi revolutionaries have triumphed. Everything else is surmise. Herr Hitler's strongest card is undoubtedly the appeal of his movement for national resurgence. The very title "National" gives it a certain sanctity, and Nazi propaganda has cleverly made the most of this advantage. It is, of course, this feature in the Revolution, and not its half-baked social and economic theories, that chiefly explains its easy capture of thousands of *bourgeois* supporters, and the acquiescence and docility of thousands more. But far the largest element in the party has been neither the *bourgeois* nor the proletarian, but the petty shopkeeper and the small farmer.

This "National" fervour, however, requires incessant nourishment, and it gets it in the form, not only of parades and processions, but also of stirring irredentist speeches and similar appeals. To satisfy the mood that has been induced, the new Germany of the National Revolution has been promised, directly or by implication, the recovery of most, if not all, of what was taken away by the Treaty of Versailles, including full military sovereignty; and dreams of further expansion are not discouraged. No secret is made of Germany's intention to rearm as rapidly as she can towards whatever level may be decided upon by the other great Powers, whether it means going up or down. The Brown-shirts are taught to expect war, and kept keyed up to the pitch of being ready to die for the Fatherland. Until, however, Germany is ready to fight, her foreign policy is bound to be dominated by the necessity of avoiding serious embroilment, so that, in all probability, for several years the rest of the world will have a breathing space in which to decide upon their policy.

Abroad, where it has been found difficult to grasp the ruthless destructive character of the Nazi Revolution and its entire lack hitherto of constructive statesmanship, a belief has persisted that there must be something sound behind the movement to justify it, and there has been much talk of its "idealism." But what is this idealism?

Future Prospects

One attractive feature in the Nazi's creed* is certainly the ambition to break down class barriers, the opposite of the Bolshevik's class warfare. There have also been signs that they may tackle the thorny problem of the big uneconomic estates in the east, and make room for small holdings, thereby weakening the historic power of the Junker. If so, they will have earned one title at all events to gratitude. The unification of Germany may prove to be another.

But, when all is said, their ideas are so vague that, with every opportunity, they have been unable in more than three months to present any better constructive suggestion than conscription ; labour conscription, apparently to be extended to military training, was the sum total of Herr Hitler's May Day exposition of his first year's programme. Dissatisfied with the capitalist system in its present shape, they dream of a return to something like the mediæval guild idea, but the problems of revolutionising modern industrialism in this sense are easier to discuss than to settle, and they are still, to all appearances, intoxicated with the simplicity of destroying or prohibiting everything they object to. They have certainly been courting economic trouble. They have, suddenly and to a dangerous degree, replaced with their own untrained supporters experienced men in the civil service, in business, in scientific research and in the academic world. But all warnings are met with a light-hearted assertion of their readiness, if need be, to impose on the country a lower standard of living in order to have a self-sufficing Germany moulded after their own desires. Economic collapse may yet put an end to the dictatorship, though recent experience has shown that countries which, by all economic right, ought to be dead, continue to exist.

Apart from the danger of economic collapse, there seems to be nothing to prevent the Nazi dictatorship from lasting for anything up to, say, ten years, though that will obviously

* For a further reference to the idealistic side of Naziism and Fascism see page 487 *et seq.*

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depend upon their being able to commandeer constructive talent. It is quite possible, however, that ceaseless propaganda, combined with intimidation and economic pressure, may put such talent at their disposal.

There is, however, another consideration. Hostile elements, though thoroughly cowed for the present, have been given unforgettable motives for the perpetuation of a smouldering hatred. Apart from the considerable sections of the population which have never heard the truth or been obliged by material considerations to turn a deaf ear to it, it may be roughly calculated that some 40 per cent. of the nation must have suffered or been indirectly affected by the Terror, and therefore be hostile though inarticulate.* The existence underground of a persistent Opposition ready to take vengeance at any moment of weakness is a factor that cannot be ignored, even though millions of workers dutifully waved swastika flags on "National Labour Day." To have aroused the antagonism of the Socialist skilled workman, upon whom so much depends, may yet prove to have been the fatal mistake.

Berlin.

May 1933.

* A striking feature of the March general election was that although the Communists, against whom the Terror was in the first instance mainly directed, lost about a million out of six million votes, the more moderate anti-Nazi parties, e.g., the Socialists, the Democrats, and the Centre, practically held their ground. The Socialists only lost 75,000 votes out of 7,251,000 votes. The Centre party, which polled 4,423,161 votes as against 4,230,644 in November, actually gained 3 seats. (See *The Times*, March 7, 1933.)

WORLD DEBTS AND THE ECONOMIC CONFERENCE

WE know from history that communities can become overburdened with debt to an extent which cripples their economic machinery, destroys their energy and lessens both their production and their consumption of goods. It is not open to doubt that such an overweight of debt afflicts a great part of the world at the present time.

The condition of over-indebtedness can be either internal or external—national or international. It exists internally when what are called the fixed charges of a nation come to absorb more than a reasonable proportion of the national income. These fixed charges consist in the first place of interest on all debts, public and private ; and for practical purposes include all taxes as well, for in modern democratic communities it is rarely possible to reduce taxation by any really large amount. The national income is reckoned by the total value of goods and services produced by the nation each year. If taxes and interest absorb an unreasonable proportion of this value, then commercial and business enterprise becomes unprofitable. As the motive of profit is the driving force of production, production stagnates and the supply of goods is diminished. It might be supposed that this would produce a rise in prices and so cure the evil. So it might if effective demand remained the same. But the stagnation of business lessens the demand for, as well as the supply of, goods—and in practice the demand often falls off even faster than the supply. So the ultimate result is a lowering of the standard of living for everyone except the comparatively small class of those who enjoy fixed incomes in terms of money. Their position is always relatively, and often absolutely, improved. Carried to the extreme you would get a situation where the whole annual production of the nation in goods and services went to the Government—which can always help itself—and

World Debts and the Economic Conference to the creditor class, after deducting a bare subsistence for the rest of the people.

The ordinary cause of internal over-indebtedness is a period of inflation followed by one of deflation. During the inflationary period prices rise, most people are optimists and spend freely. Production is profitable and is speeded up. Public bodies, corporations and individuals borrow freely ; for providing public services and amenities ; for increasing the plant and equipment of production ; for furnishing themselves with articles of use and enjoyment which they think they can afford. All these things are actually produced from day to day and neither their production nor their use logically implies any mortgaging of the future. But in effect it does involve that. For the people who use them are not the same as those who produce them and the spenders in one form or other give a mortgage to the non-spenders. There is a great increase in the volume of debt. Then deflation comes, by accident or design. Prices fall ; and the borrower finds that his obligation, being stated in terms of money, has become a far greater charge than it was when he contracted it. A simple instance is that of the farmer in Canada or the United States who borrowed money four or five years ago to buy land or machinery and who finds that, whereas at the time he borrowed he had to set aside 400 bushels out of his crop to pay the interest on his mortgage, he now has to set aside 1,200 bushels for the same purpose.

II

THE United States of America is perhaps the most striking example of internal over-indebtedness at the present time. Her taxation, plus her fixed charges in the way of interest on internal private debts, is calculated to amount in terms of money to nearly 20 billion dollars a year. Four years ago her national income was reckoned at 90 billion dollars a year. To-day, owing to the deflation, and the consequent fall in prices and restriction of produc-

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tion, it is reckoned at less than half that figure. The internal debt charges and taxes of the country which used to absorb less than a quarter of the national income now absorb nearly half.

The internal position of Great Britain is not so bad as this—especially since Great Britain checked the process of deflation by going off the gold standard in 1931. But it is bad enough. Those European countries which were belligerents, and which swelled the volume of their public and private debts in the war and reconstruction period, have without exception wiped out the greater part of their internal indebtedness by a drastic process of inflation—stabilised subsequently by the devaluation of their currencies. For them accordingly the internal debt burden is not a pressing problem at the present time. The neutral countries have for the most part not devalued their currencies, but then neither did they expand their internal indebtedness as the others did.

We now turn to international indebtedness. Here the position is different. The United States instead of being in the worst is in the best position, having no foreign debts and being herself a great foreign creditor. Great Britain and France are in the same position except for the war debts they owe to the United States. Germany has borrowed freely since the war; and foreign indebtedness is an important factor in her economic position. This applies also, though to a less extent, to some of the smaller European countries. But it applies most of all to the so-called “new countries,” e.g., South America and British Dominions, such as Canada and Australia. These communities both before the war and after have borrowed great sums, both on public and private account, mainly from Great Britain and the United States. With prices at their present level they are finding it increasingly difficult to meet their foreign debt charges by the export of produce. To take a simple example, four years ago the value of Canada's wheat exports sufficed to cover the whole

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of her foreign debt charge and left a substantial surplus
to help to pay for her imports. To-day her wheat exports
do not suffice to meet half of her foreign debt charge.

III

WHEN the burden of internal debt has grown too heavy in proportion to the national income, the balance can only be restored by diminishing the money value of the debt charge or increasing the money value of the income. In practice this generally means the alternatives of widespread bankruptcy or general inflation, *i.e.*, the raising of commodity prices by monetary measures. For to restrict production, even if it raises prices (which it does not necessarily do, for the reasons already given) will not increase the total national income, which is a multiple of the volume of production by prices, and to raise prices while maintaining or increasing the volume of production is only possible by monetary inflation.

It may be said that neither alternative is necessary because debt charges can be brought down gradually by money becoming "cheap" in the technical sense, which leads to a fall in interest rates. But interest rates are for the most part fixed for a period of years. They can sometimes be brought down by a powerful debtor—the conversion of part of the British debt is a striking example. But the process is neither generally applicable nor rapid. It may suffice in a situation where the balance between debtor and creditor has only become slightly disturbed, but it will not suffice where the maladjustment is serious. In such cases voluntary adjustment has to be supplemented by involuntary adjustment, *i.e.*, by repudiation or bankruptcy on a wide scale. It is almost certain, for example, that if the money value of the national income of the United States remains at its present figure or sinks lower there will exist before long a widely spread condition of bankruptcy in that country.

Just as internal debt charges must be met out of the sur-

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plus of national income, after providing for the subsistence of the rest of the people excluding the creditor class, so international debt charges must be met out of the surplus of international trade after providing for necessary exchanges of goods. A good deal of international trade consists of these necessary exchanges, *i.e.*, those in which one country obtains from another what it cannot produce for itself. Thus Great Britain, the United States and all European countries must import rubber, coffee and tropical produce generally, while most tropical countries must import a good many classes of manufactured goods, or do without them.

Then there is another large slice of international trade which is taken up by exchanges which are not so absolutely necessary as in the instances quoted above but may be called semi-necessary, *i.e.*, those in which one country gets from another what it can only produce for itself at a great disadvantage. For instance, it is conceivable that a country like Great Britain or Belgium could do without imported foodstuffs, and that a country like the Argentine or South Africa could do without foreign manufactured goods. But it would only be by sacrificing all economic principles and producing painfully and dearly what could be got much more easily and cheaply by exchange.

These necessary and semi-necessary exchanges of goods cancel out with one another. But there must be a surplus of international trade over and above these if international debt payments are to be made: that is to say, the debtor must have a surplus out of his exports which will meet his debt charges after paying for his imports.

IV

WHAT is the volume of international debt charges at the present time? There are no complete statistics available but an estimate can be made. To take Great Britain first; her overseas investments are valued at 3½-4 billion pounds. Rather more than half of this

World Debts and the Economic Conference consists of fixed interest bearing securities. The British claim on the rest of the world in the way of annual debt interest on long term loans is estimated at 102½ million pounds for 1932. This is after writing off claims in respect of such investments as Russian and Mexican loans.

Great Britain's total receipts in respect of her foreign investments of course largely exceed this figure, even at present, but the balance is made up of dividends on share capital and so on which are not fixed charges, but vary with earnings.

The investments of the United States abroad are stated to reach a figure of 15 billion dollars claiming a return of 900 million dollars annually. The available statistics do not divide this into loan and share capital, but it is estimated that rather more than two-thirds of the claim represents fixed interest on debt. This does not include war debts owing to the United States.

The claim of other creditor countries such as France, Holland, Belgium, Switzerland, etc., is difficult to estimate but probably does not in the aggregate amount to more than half of the British claim. Neglecting for the moment the difference in value caused by the depreciation of the pound sterling, and omitting war debts, we therefore arrive at an estimate of the world's total international debt charge as something between 1,200 and 1,500 million dollars a year. It must be remembered that in addition to this there is a very large claim of Great Britain and the United States for dividends on share capital and other forms of foreign investment apart from actual loans. This might reach another 600 to 800 million dollars a year. While it is not a fixed charge, and in fact varies considerably, it is none the less, so long as any part of it continues to be paid, a charge to that extent against the surplus of international trade.

If we compare the position to-day with that of 1913, when the United States had not begun to be a creditor nation at all, we shall be safe in saying that the total money

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volume of international debt charges has approximately doubled. There is no corresponding increase in the volume of international trade as it stands to-day. In 1928 and 1929 the volume of international trade, reckoned in terms of money value, was nearly 70 per cent. higher than it was in 1913. But in 1930 it was only about 30 per cent. higher ; in 1931 it sank below the 1913 figure by about 4 per cent.; and 1932, as far as the figures are available, shows a further shrinkage of about 25 per cent. as compared with 1931. In other words a volume of international trade which in terms of money is 30 per cent. less than it was in 1913 is called on to supply a surplus applicable to international debt charges of double as much as was required in 1913.

V

IN the above figures no account has been taken of reparation or war debt charges. In this matter the position after the Young settlement was, roughly speaking, as follows. Germany had to find something like 400 million dollars a year ; and most of this went ultimately to France and the United States. By the Lausanne settlement Germany's obligation was practically wiped out. Assuming that the latter settlement holds and that, as a consequence, Great Britain's European debtors also cease to pay, we are left with the claim of the United States against Great Britain, France and the other Allied States. This amounts in round figures to 250 million dollars a year. It will be seen that it does not constitute more than a fraction—say, one-sixth at most—of the world's total international indebtedness. While its reduction or complete cancellation would be a great relief to the debtor nations concerned —just as the abolition of reparation payments was a great relief to Germany—it would by no means remove the general problem of international indebtedness nor relieve the difficulties of other debtor nations and particularly of the “new countries.”

But there is a special reason why war debts (and reparations)

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tions) have hitherto assumed the first place in the discussion of the world's debt burdens. This is the only piece of international debt which can be dealt with directly by governments. The governments of Great Britain and France can say to Germany : " We will reduce or abolish your reparation debts." The Government of the United States can say to France or Great Britain : " We will reduce or cancel your payments on account of war debts." But the Government of Great Britain cannot say to Australia or Canada, nor can the Government of the United States say to the South American countries : " We will reduce or cancel the payments you have to make on account of your borrowings from our country." For those borrowings were made from private investors and the governments of the lending countries have no power either to reduce the principal of the debt or to accept a lower rate of interest. If the creditor were any single body the debtor might approach it and say—" We cannot pay all, but we can pay so much and we will do so if you will waive the rest of your claim." And so a composition might be made by agreement. But the creditor being thousands of scattered bondholders, there is no one to approach. The debtor, whether it be a government, a municipality or a corporation, cannot negotiate privately. It can only call its creditors together, which is a public admission of bankruptcy ; and if it is pushed to that it would as soon stop paying altogether.

This method of reduction by negotiation—without an admission of bankruptcy—has in fact been employed all along in the case of war debts and reparations, both by Germany towards the Allies and by the Allies towards the United States. It is still being employed in the latter case. In the former it has reached its limit for there is hardly anything left to reduce. But it is not applicable to the other five-sixths of international indebtedness for the reasons given.

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VI

WE have seen that when internal debt becomes too heavy to be borne the only way of restoring the balance is by increasing the national income stated in terms of money or by cancelling the whole or a considerable part of the debt through the method of bankruptcy. Similarly, in the case of international debt, when the burden becomes too heavy in comparison to the surplus of international trade which is available to carry it, there are only two ways out. One is a general failure to pay on the part of debtors—which is parallel to bankruptcy in the case of internal debt—the other is to increase the value of international trade in terms of money. This again can be effected by increasing the volume of goods which are dealt with in international trade or their price or both. An increase of volume would no doubt follow on a removal or a great lowering of tariff barriers on the part of creditor countries. But this would cause such internal dislocation—particularly in the United States and France—that it is not in the least likely to take place to anything like the extent required. An increase of prices could be brought about by international inflation or even by inflation on the part of the creditor countries. Thus the departure of Great Britain from the gold standard has diminished the burden of her foreign debtors by about one-third as compared with what it would have been if the pound had remained at par. There is a third method of adjusting the balance which is familiar, namely, that of fresh foreign lending. The effect of this is to swell for the time being the volume of international trade. If the United States lends, let us say to Chile, 100 million dollars, in effect she imports from Chile a number of printed pieces of paper which, for the purpose of balancing foreign trade, are reckoned, not at their value as paper which is negligible, but at 100 million dollars. The imports of the United States and the exports of Chile are each increased by that

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figure. But this is obviously only a temporary solution. You cannot decrease the burden of debt simply by more borrowing, if you stop there. You may get out of an immediate difficulty that way, but you must at the same time take steps to increase your means of payment in future. And even as a temporary solution it is to be feared that fresh foreign loans are out of the question at the present time, except to the limited extent to which they can be made by one government to another. Neither the credit nor the prospects of the borrowers are good enough to tempt the private investor.

VII

THE Economic Conference will no doubt consider the problem of international indebtedness. The other problem of internal indebtedness will hardly come within its scope. Each country will have to settle that for itself. Nevertheless, the way in which it is settled may vitally affect the deliberations of the Conference.* If, for instance, the United States, before the Conference takes place, should decide on a policy of internal inflation—to meet her own internal over-indebtedness—with the result, let us say, of doubling the dollar price of commodities, the difficulties of the international debt problem will be much lessened if not altogether removed. For the debtors whose obligations are expressed in terms of dollars would be relieved of one half of their burden. And as sterling would undoubtedly follow suit—for Great Britain could not afford to see the pound at a premium over the dollar—the real burden of all debts expressed in sterling would be similarly reduced. And most international debts are expressed either in dollars or in sterling.

But let us suppose that this does not happen and that the United States continues to pursue a deflationary policy up

* This article was written before the United States had renounced the gold standard—presumably as a preliminary to internal inflation. If she carries on with that policy the position will be altered, as pointed out in the following paragraphs.

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to the time of the Conference. How then will the Conference deal with the matter of international indebtedness? It seems probable that it will pass a series of resolutions in favour of a general lowering of tariffs. For the industrial and labour interests, which generally speaking are opposed to this, will not have much to say at a conference consisting mainly of politicians advised by bankers. If these resolutions are carried into effect, the result will doubtless be an improvement in the volume of international trade, and the international debt situation will be eased to that extent. But will the resolutions be carried out? That seems less probable, when we consider the opposition of both industrial and agricultural populations, which will be aroused by any attempt to reduce the protection they now have. Still, something may be effected in this direction, even if it is no more than the setting up of a tendency to negotiate trade treaties for the purpose of admitting foreign products instead of for the purpose of shutting them out.

Secondly, it is possible that the Conference might recommend some measure of concerted international inflation with the object of raising commodity prices all over the world. This would relieve international indebtedness. But while this is possible it is not probable. Up to the present the indications are that the deflationists will control the Conference. France is certainly on their side. She has inflated on her own account and thus settled her own problem of internal indebtedness. She holds few foreign long term bonds and is not worried by the prospect of general default on these. On the other hand she is a large holder of gold and short term money—on which there is the least risk of default. Her interests therefore are almost wholly on the creditor side, and she is free from the anxiety which the bondholding countries must feel about the solvency of their debtors, and which might induce them to consider measures of general relief. Countries like Holland and Switzerland will probably follow her lead.

The deflationists have also managed to sway the financial

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policy of the United States up to the time of writing this article. Their sway now appears to be threatened, but it is not yet overthrown. If they retain it until the Conference they will shape the line taken there by America. Of course the position will be quite different if, before the Conference meets, the United States has already turned to inflation on her own account. But in that case, as pointed out above, the problem of international debt will be of much less importance.

As regards Great Britain, while the deflationists may not be strong enough to impose their own policy, they are strong enough to prevent any decided action towards inflation and this country therefore is not likely to take any initiative in the matter one way or the other.

But, it will be said, if the Conference is not likely to take any action towards a general lift of commodity prices, nor yet any action which will result in the lowering to an important extent of the tariff barriers against international trade, then it will have done nothing at all towards solving this particular problem of the excessive burden of international debts. There is, however, one other thing which the Conference might do which would be helpful in the existing situation. That is, if it should point out to international bondholders and creditors in general, that with the present price levels there is no likelihood that their debtors will be able to pay in full, and that it is bad policy to go on piling up interest and renewal charges which will end by creating a situation where the debtor will lose hope and refuse to pay at all, since he may as well be hanged for a sheep as a lamb. The Conference might therefore suggest the setting up or even itself set up a semi-judiciary body to which debtor governments and municipalities and perhaps even private corporations (though this is more doubtful) could apply for a revision of their foreign long term liabilities, and to which they could make an offer of composition. If the revising body approved this offer it might be submitted by them to a meeting of the bondholders con-

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cerned ; and if accepted by a majority it would be understood that the debtor governments were free to enforce it by local legislation without any diplomatic protest and without it being considered any reflection on their credit.

Assuming that nothing else could be done towards lightening the burden, the establishment of such machinery would at least mitigate the difficulties of the situation. For it would create a means, which does not exist at present, whereby debtors unable to pay in full would have the opportunity of making a composition with their creditors and escaping the stigma and loss of credit which attends on a mere failure or refusal to meet their obligations.

THE RECEPTION OF THE INDIAN WHITE PAPER

THE Indian White Paper has been so fully discussed in the press that it is unnecessary to describe it in detail in an article appearing more than three months after its publication. Briefly it provides that the new constitution shall be based on the three principles of federation, responsibility and safeguards, which emerged from the first Round Table Conference. The federation, subject to parliamentary authority, is to come into being when 50 per cent. of the more important States have joined the federation. There is to be full autonomy, including control of "law and order," in the provinces, and a responsible ministry at the federal centre having control of federal subjects, except the army and foreign affairs, for which, together with the necessary financial supplies, the Governor-General is to be responsible. The safeguards, in addition to the reservation of the army and foreign affairs, are to consist in giving to the Governor-General and, in lesser degree, to the Governors of provinces, a "special responsibility" for "preventing a grave menace to the peace or tranquillity of India," for "safeguarding the financial stability and credit of the federation," for "safeguarding the legitimate interests of the minorities," and securing the rights and legitimate interests of the higher civil service, and for "the prevention of commercial discrimination." When, in the opinion of the Governor-General or the Governor, a course of policy is being pursued by his Ministers which challenges one of these special responsibilities, he has the constitutional right and duty of intervening and of no longer acting on the advice of his Ministers, and in the last resort, if agreement is impracticable, he may act on his own responsibility so far as is necessary to discharge his special duties.

Such are the Government's proposals for the government of India during the next stage in working out the

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Declaration of 1917. In the sections that follow the reception of these proposals in Great Britain and in India is described.

I. THE REACTION IN GREAT BRITAIN

JUDGED merely by the figures of the division lobby the Indian White Paper had an easy passage through Parliament. In the House of Commons it was committed to the Joint Select Committee for further examination after a three days' debate by a vote of 449 to 43. But it is well to recall that in actual fact that was all that did happen. That vote cannot be taken as Parliament's definite approval. Speaker after speaker reiterated the view that the appointment of the Joint Select Committee did not necessarily involve approval of the White Paper. In this they were on sure ground for the Government has always insisted that the White Paper scheme was not a cut and dried one but that alternative proposals were open for the consideration of the Select Committee.

But even this restricted issue gave an important reflection of the division of opinion. The official Opposition was frankly of the opinion that the proposals did not go far enough. The policy of the Labour party, as defined by Mr. Lansbury, was the admission of India at the earliest possible moment, and by her own consent, as an equal partner in the British Commonwealth of Nations. They were opposed to the appointment of a Select Committee to carry out a policy that had not, in their view, the support of the people of India, and they went into the lobby against it. The Liberals, on the other hand, whom angry Conservatives sometimes call "the other wing of the Opposition," were on this occasion the strongest supporters that the Government possessed. Such criticisms as Sir Herbert Samuel directed against the policy of the Government crystallised round the fear that it might alter it at the dictation of its own supporters. He earnestly hoped that the

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Select Committee would not recommend any increase in the safeguards or any cutting down of the degree of liberty that had been granted. In this attitude Sir Herbert Samuel had a united party behind him.

But fifty Socialists have as little chance of wrecking the Indian policy as have fifty Liberals of carrying it on to the Statute Book. The real decision remains with the 490 Conservatives whom the national tide has swept on to the green benches. What is their attitude? It can be said that the prospect of a sweeping extension of self-government to India fills few of them with enthusiasm. Nearly all of them contend that such a gigantic experiment in self-government is a risky business. Where they differ is on the extent to which they regard those risks as justifiable. On that they are divided into three sections.

The first and at present much the largest section are those who whole-heartedly support the Government. They regard themselves as realists. They stand by the conclusion, however unpalatable, that the time of tutelage in India is over and that it is impossible to impose a government by force, however preferable that form of government may be to the one that it is desired to substitute for it. Their chief spokesman from the back benches was Sir John Wardlaw-Milne, the chairman of the Conservative India Committee. It was he who did so much to upset Mr. Churchill's speech by interrupting to ask what Mr. Churchill's authority was for saying that the civil service was "packed" in favour of the reforms. The outburst of cheering that greeted Mr. Churchill's temporary discomfiture at being unable to supply the required evidence plainly showed the direction of the sympathies of the great majority.

But it would be idle to deny that Mr. Churchill's following indicates signs of increase. He is now attracting some recruits from among the younger men who make up such a large proportion of the present House of Commons. The Secretary of the India Defence League, Mr. P. W. Donner, is one of them, and men like Commander Agnew

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and Mr. Lennox Boyd are powerful additions. It is notable that Mr. Robert Boothby, one of the most influential of the young Conservatives outside the Government, is now voting with the Die Hards. Though Mr. Churchill did not challenge a division on the White Paper, on the motion for the appointment of the Select Committee he took 80 Conservatives into the opposition lobby with him. It is true that the issue on that occasion was narrowed down to the existence of an overwhelming preponderance of Government supporters on a Committee that was supposed to be impartial. But the doubling of Mr. Churchill's strength in the lobby was not without its significance.

Probably the real arbiters of the situation are the third group in the Conservative party which has not yet made up its mind. They include men like Sir Robert Horne and Mr. Cadogan, who was on the Simon Commission. They are awaiting the report of the Select Committee before they will declare themselves on the critical question of responsibility at the centre. Much depends on the attitude of the Conservative party in the country. Far the most formidable revolt against the White Paper policy has come from the constituencies. Resolutions against the Government policy are pouring into the Conservative central office. They by no means come exclusively from constituencies represented by members avowedly opposed to the Government's policy. Frequently they are passed in direct defiance of the views of the sitting member with whom on all other questions the members of the association would be in complete agreement. The resolution of the Horsham and Worthing Conservative Association is a case in point. Lord Winterton, the sitting member, has all the prestige that comes from 29 years' continuous representation. At a meeting of his association summoned to hear his views he strongly supported the federal solution proposed in the White Paper as being "the wisest and safest course." He cited as supporters the names of men like Lord Irwin,

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Lord Peel, Lord Reading and Lord Lytton, and "almost all the prominent business men recently or at present connected with business in India who have spent most of their working lives there." It was to no purpose. He was defeated by 161 votes to 17. Yet Lord Winterton was the man who was put up by the Government in the last Indian debate as the most convincing speaker to answer Mr. Churchill.

It is not merely constituencies in the rural and residential areas that are revolting against their members' support of the Government policy. One after another the constituency associations in the Lancashire towns are passing hostile resolutions. One of the central organisations of Conservative women and the Junior Imperial League have also passed motions against the Government policy. Indeed there is a danger that at the annual meeting of the Conservative caucus in the autumn not even Mr. Baldwin and Sir Samuel Hoare together might be able to prevent an adverse vote.

It is impossible to estimate what would follow upon that. The general impression is that the Government will in no circumstances throw over their policy and that the rebels, faced with the prospect of splitting the Conservative party from end to end, will give way rather than bring it about.

The difficulty that the supporters of the Government policy find is to mobilise enthusiasm for it. The great mass of the electors are ignorant of and uninterested in the Indian problem. The sprinkling among the working classes who have any personal knowledge of India are mostly returned soldiers whose inclination would be naturally towards the policy of the strong hand. But though it is not easy to obtain any very definite expression of support for it, the electors in general are almost certainly on the side of an extension of self-government, for the policy of repression is traditionally unpopular in England.

And, to return to the House of Commons, it must be remembered that the three sections we have described are

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all of them members of the Conservative party. It is one thing to feel doubts about the proposed reforms, it is quite another thing to carry these doubts to the point of putting the Government out of office and breaking up their party. The Government, moreover, could certainly count upon the support of Labour as well as Liberals, if their scheme were really in danger of being thrown out when it comes back to Parliament from the Joint Select Committee. But the doubts in the country have been sufficiently pronounced to show the importance of nothing happening in India that would further strengthen the hands of the opponents of the Government's proposals.

The fundamental difficulty is that, while it is easy to point to the inherent dangers in any measure of constitutional advance in a country as large, as diverse and as illiterate as India, and to appeal to the natural pride of the Briton in the century of peace and order he has given to India, it is much more difficult to bring home to Parliament or English audiences the political facts of modern India—the advance of education (10 million students in primary schools, 100,000 in universities), the influence that educated Indians exercise upon their illiterate countrymen, the development of an Indian press, the strength and influence of nationalist political opinion, the economic transformation of the village through the effect of world prices, the Indianisation of the services and the extent to which legislatures and Ministries are now in Indian hands. It was pointed out during the debate in the House of Lords that, in the legislatures, there are 935 elected members to 166 officials. In the central legislature there are 145 elected and nominated members as against 26 officials. No fewer than 32 out of 43 Ministers in the provinces are Indians. In the large provinces there are five Indian Ministers out of seven, in the medium provinces four out of five, and in the smaller ones three out of four, and there are three Indians in the Viceroy's Executive Council. Yet, it is on the weighing of these political facts as against the physical

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and geographical facts that any sound judgment as to the future form that "dualism," inevitable in India to-day, should take in the new constitution must be based.

The White Paper had an unexpectedly easy passage through the House of Lords. Most of the speakers were men who had had practical experience in India, and spoke to the merits or demerits of the particular proposals rather than on the abstract issue as to whether the White Paper was abdication or statesmanship. The House listened to these expert opinions and was clearly content to await the report of the Joint Select Committee before coming to a judgment.

London.

May, 1933.

II. THE REACTION IN INDIA

(From our Correspondent in India)

NORMALLY, contributions from India cover a period of three months, and discuss comprehensively whatever important political, administrative or economic events may have occurred during that period. The present one is relatively restricted in scope and deals with one subject only—the reactions in India to the White Paper; and since the White Paper was issued only on March 18 and this section is dated April 21, it will not be concerned except incidentally with occurrences outside a limit of about four weeks.

April 21 being the day on which the names of the Indians invited to attend the Joint Select Parliamentary Committee were published, the section of time under review, though short, is nevertheless a tidy and compact chronological unit, within which what must seem to English readers the essential contrariness of the Indian response to the White Paper shows up clearly. For, while on the one hand the vast majority of Indian politicians and political organisations of standing have vehemently denounced His Majesty's

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Government's proposals, or portions of them, on the other no important group which was represented at the last session of the Round Table Conference in London has shown any genuine desire either to abstain from participating in further constitutional discussions or to commit itself to boycotting the new system of government, even if it is introduced precisely as set forth in the White Paper without any modification in accordance with Indian desires. Indeed, the list published to-day renders this an under-statement, since among the new names are those of two individuals representing interests which were not represented in London last winter.* To a casual visitor from abroad who had arrived in India for the first time on March 18 and endeavoured to follow the movements of political opinion by studying the newspapers, so satisfactory an outcome by this date would have seemed inconceivable. The denunciations of the White Paper that filled the press during the first ten days or so after its publication were so intense, voluminous and comprehensive, that he would doubtless have concluded that practically the whole of political India was united in considering His Majesty's Government's proposals utterly unacceptable, and that in such circumstances the chances of a new constitution on the lines suggested being successfully established, or even of representative and influential Indian politicians in any number thinking it worth while to go to London to discuss it, were practically nil.

* Namely, Mr. Rangaswami Iyengar and Sardar Buta Singh. The former, who is perhaps more usually looked upon as a right-wing Congressman than a left-wing Liberal, is believed to have refused an invitation to attend the last session of the Round Table Conference owing to the fact that Mr. Gandhi and other Congressmen were in jail. (It may incidentally be remarked that both Sir Purshotamdas Thakurdas and Mr. Kelkar, who are also on the list, have at one time or another during the last three years been associated politically with Congress.) The significance of Sardar Buta Singh's inclusion in the list is that he is a Sikh from British India. It will be remembered that in protest against the terms of the Communal Award the Sikh delegates who had attended the second session of the Conference refused to attend the third session, and that in consequence the only Sikh present at the latter was one from an Indian State.

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Naturally, the most vehement denunciations of the scheme were found in the pro-Congress newspapers, and the following extracts from editorials, all of which appeared within the first three or four days after the White Paper was published, are typical of the kind of comment in which a substantial portion of the Press indulged. The *Tribune* (Lahore) declared that "on almost every single point the proposals contained in the White Paper constitute a definite infringement of the basic principles laid down in the October announcement* in the Premier's speech at the conclusion of the first Round Table Conference, and in the Delhi Agreement.† Altogether, the White Paper justifies the worst apprehensions of those who have been indulging in gloomy forebodings during the last few months. We have not the smallest doubt that those who have any right to speak on behalf of political India will with one voice reject the offer contained in this document." According to the *Amrita Bazar Patrika* of Calcutta, the proposals of the Government showed "their contempt for public opinion." "They (the proposals) would," declared the *National Call* of Delhi, "give the Viceroy the powers of a hundred Hitlers and Mussolinis. . . . Responsibility conceded with one hand is taken away with by the other." "A mockery of progress" was the verdict of the *Hindustan Times*, "not a vestige of the principle of responsibility." "Unacceptable provisions and sinister precautions," said the *Bombay Chronicle*, and so on.

Criticism of the proposals by the Liberals and other predominantly Hindu groups which have hitherto stood aloof from the Congress was also severe. The *Hindu* of Madras, a powerful organ edited by Mr. Rangaswami Iyengar,‡ remarked that

the White Paper will be received not perhaps with surprise, but none the less with supreme dissatisfaction. The Government's

* i.e., in Lord Irwin's announcement of October 1929.

† i.e., the "Irwin-Gandhi" Agreement.

‡ *Vide* footnote, p. 555.

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proposals aim not at setting up a self-governing federation conditioned by safeguards of a temporary self-eliminating character, but at maintaining virtually intact the control of the Central Government from above.

The *Leader*, an influential Allahabad paper edited by Mr. C. Y. Chintamani,* entitled its first leading article "White Paper and Black Outlook." Mr. Chintamani further declared, during the debate on the White Paper in the United Provinces Legislative Council, that

everyone must have realised that the overwhelming consensus of opinion in the country is that the scheme falls short of even moderate expectations and is cast on lines divergent from those on which Indian reformers wish the future constitution to proceed. If the people of England are not going to take seriously and treat with sympathy the unanimous desire of the people of India for a genuine scheme of self-government, a crisis is bound to overtake both countries.

Sir Tej Bahadur Sapru,† in a press statement issued shortly after the White Paper was published, said :

India has given a hostile reception to the new constitution. That it is not a constitution for a self-governing Dominion requires no argument. Its outstanding feature is that it has laid far more emphasis on safeguards and reservations than on central responsibility and the possibility of its early growth and expansion. The constitution as outlined is one which none can enthuse over, and from the point of view of constitutional theory exhibits a large front to attack.

Mr. M. R. Jayakar,‡ Sir T. B. Sapru's close political associate, said : "Almost all the undesirable features of the last Round Table Conference have been repeated in the

* A former Minister of the United Provinces Government and delegate to the earlier sessions of the Round Table Conference.

† The well-known Liberal from the United Provinces who has taken a prominent part in all three sessions of the Round Table Conference, and was formerly Law Member of the Viceroy's Executive Council.

‡ Mr. Jayakar comes from the Mahrratta country; was formerly associated with the Hindu Mahasabha; and was one of the founders of the "Responsive Co-operation" group which has stood between Congress and the great mass of Hindu nationalism since 1931.

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White Paper, and none of the suggestions that Sir Tej Bahadur Sapru and myself made to the Secretary of State—with the exception of two—find a place in the document. The coming of federation seems to be more distant than ever.” Sir P. S. Sivaswamy Aiyar,* Mr. V. S. Srinivasa Sastrī† and Mr. Ramachandra Rao, in a joint statement on behalf of the Madras Liberal League, declared that

the White Paper is inspired throughout by deep-seated distrust of the capacity and *bona fides* of the legislatures, the activities of which will be surrounded by so many restrictions that it will be impossible for any sense of responsibility to grow up. In effect, the scheme appears to be a perpetuation of the present régime. The vast powers conferred upon the Governor-General and Governors amount virtually to autocracy, not mitigated but strengthened by the unchecked control of Whitehall.

Sir Purshotamdas Thakurdas‡ is reported to have remarked : “The White Paper is said to embody the decisions of the Round Table Conference, but the several dissents by Indian members at the various meetings find no place in it. As far as the third Round Table Conference is concerned, my dissents have been discarded, and I must therefore mark my emphatic protest against the decisions of His Majesty’s Government.” In the debate on the White Paper in the Bihar and Orissa Legislative Council, Mr. Sachchidanand Sinha§ characterised His Majesty’s Government’s scheme as a political imposture. The system that was sought to be installed would, he declared, “perpetuate British domination and enthrone pure and unadulterated autocracy, rendering the people far more

* “The grand old man” of the Indian Liberals.

† Formerly Agent of the Government of India in South Africa.

‡ A well-known Bombay merchant who has at times closely identified himself politically with the Congress, and whose acceptance of an invitation to attend the last session of the Round Table Conference caused that party some annoyance. His name is on the Joint Select Committee list referred to on pages 555. Was a member of the Hilton Young Financial Commission.

§ Formerly Finance Member of the Bihar and Orissa Government.

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helpless to resist the despotism of the Government than they are at present." During the three days' debate on the White Paper in the Legislative Assembly, Dewan Bahadur Ramaswami Mudaliar* declared that "the White Paper must be subjected to two tests—namely, how far the proposals are in consonance with the hopes and aspirations of the people when Lord Irwin announced the decision to convene the first Round Table Conference, and how far they embody the agreed decisions of the Conferences." He considered that on some fundamental points the scheme involved "an unjustified departure from the agreements," and launched a strong attack on the proposals made regarding the position of the All-India services under the new constitution. Sir Hari Singh Gour† complained that the White Paper did not contain a word on the question of Dominion status, and urged that the Declaration of 1917, as amplified by the Irwin Declaration,‡ should be embodied in the future Government of India Act. Mr. B. Das§ asserted that only 20 per cent. of responsibility would be transferred to Indians under the White Paper scheme, and took strong exception to the proposals that a Statutory Railway Board should be established under the Constitution Act. Mr. F. X. De Souza|| described the White Paper as "waste paper" containing an unnatural combination of autocracy and democracy. There was, in his opinion, no doubt that the safeguards had been framed in the interest of the paramount Power. Mr. H. P. Mody¶ said that the White Paper did not secure one of the fundamentals of good government,

* A leader of the Madras Justice party. Has attended all three sessions of the Round Table Conference.

† Leader of the Nationalist party, whose name is on the Joint Select Committee list referred to on pages 555.

‡ See first footnote on page 556.

§ Whip of the Nationalist party.

|| A nominated member of the House. Formerly a member of the Indian Civil Service.

¶ A prominent Bombay merchant.

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namely, that the control of the Secretary of State should be eliminated from the day-to-day administration of the country.

The White Paper scheme was also denounced by the various communal organisations. The All-India Hindu Mahasabha, at a meeting in Delhi on March 27, adopted an extensive list of resolutions adverse to the proposals, among them being one declaring that the Communal Award, which formed the basis of the structure of the proposed new constitution, is predominantly pro-Moslem and highly unjust to the Hindus. On the same date the All-India Moslem Conference in Delhi passed a corresponding resolution in which profound disappointment was expressed at the proposals contained in the White Paper, and radical changes in the scheme were demanded. Sir Mohammad Iqbal,* who presided over this meeting, had previously in a public statement declared that the White Paper would not satisfy either the country as a whole or the Moslem community, since provincial autonomy would be crippled by the special powers reserved for the Governors. Chaudhri Zafarulla Khan,† during the debate on the White Paper in the Punjab Legislative Council, strongly criticised the safeguards and reservations which, in his view, caused real equality of status "to be lost in a distant mist." The majority of the Moslem newspapers also expressed disapproval of the scheme, the *Eastern Times* of Lahore, for example, which is normally considered almost a pro-Government paper, declaring that "the reforms outlined in the Parliamentary White Paper are unacceptable to politically-minded India as a whole, and even these will not prove workable unless they are considerably modified in the light of popular opinion as expressed in the Press and on the platform."

* Well-known as a poet and leader of Moslem thought in the Punjab ; a delegate to the Round Table Conference sessions.

† A Round Table Conference delegate ; recently a temporary member of the Viceroy's Executive Council.

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This spate of denunciation must, to anyone who took it at its face value, have appeared of extremely ill omen for the introduction and working of the new constitution. The chorus of disapproval was not, of course, unanimous. Most of the powerful English-owned newspapers, including the *Statesman* (Calcutta), the *Times of India* (Bombay), the *Madras Mail*, the *Civil and Military Gazette* (Lahore), and the *Karachi Gazette*,* supported the scheme, as also did a few Indian-owned newspapers, such as the *Pioneer* (Allahabad), the *Star of India* (Calcutta), and the *New Times* (Madras). The *Statesman*, in its first leading article, remarked :—

No one can read the White Paper without realising that nothing less than a revolution by constitutional means is proposed, and that under the Crown a gigantic transfer of power and responsibility from the Government and Parliament of Great Britain to Ministers responsible to Indian legislatures, and to legislatures responsible to a greatly extended electorate, is involved.

The paper added, "Some of the most epoch-making changes occupy only a few lines, while inevitably pages are occupied with restrictions and safeguards which, in the interests of the smooth working of the new constitution, have to be defined clearly and exactly." A considerable number of individual politicians also, either in statements to the press or in speeches during the debates in the central or provincial legislatures, welcomed the proposals, or portions of them. The fact remains, however, that favourable comments were relatively so infrequent as to be practically submerged beneath the torrent of denunciation with which the White Paper was greeted, and that anyone unfamiliar with Indian conditions and with the methods of political controversy in this country would have considered it inevitable that the publication of His Majesty's Govern-

* The *Englishman* (Calcutta) was the only paper in this country which openly attacked the White Paper from the "die-hard" point of view, arguing that it conceded too much. Some of the comments of the *Civil and Military Gazette*, however, were also critical from this side.

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ment's constitutional proposals must result in a pronounced and widespread deterioration in the general political atmosphere.

The reasons why the Indian reaction to the document was superficially so extremely unfavourable are diverse, and require analysis. First, there is no question that even the most moderate sections of Indian political opinion were genuinely disappointed with certain portions of the proposals. Probably the part of the White Paper which was most strongly resented was that which dealt with the future control of and recruitment to the all-India services. During the month which has elapsed since the White Paper was published, criticism has been increasingly concentrated upon these provisions, and the speeches by some of the ablest and most respected Indian Liberals in the Legislative Assembly, such as Sir Cowasji Jehangir and Dewan Bahadur Ramaswami Mudaliar, have demonstrated that Indian opinion as a whole considers the retention of control by the Secretary of State to the degree proposed, in principle, obnoxious, and, so far as the White Paper scheme as a whole is concerned, logically unnecessary. The extent of the special powers conferred upon the Governor-General and the provincial Governors was also strongly objected to, though there have been indications during the last fortnight or so that the more responsible political leaders realise that a good deal of the criticism under this head was misconceived, and that the likelihood of these special powers being brought into force is much less than seemed superficially probable when the White Paper was first perused. Other features of the document with which the Indian moderates expressed themselves particularly disappointed were the limited scope of the future Finance Minister's control over the expenditure of central revenues, the decision to establish a Statutory Railway Board under the Constitution Act, and the uncertainty regarding the date of the inauguration of federation. Disquiet regarding the last item was naturally accentuated by the acute

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dissensions which broke out among the princes during the first ten days or so after the White Paper was published regarding the fundamentals of the whole federal scheme.

Objections to the substance of the proposals were accentuated by the form in which the document was cast. From the Indian point of view it had, in this respect, three most conspicuous defects, which rendered it, on first examination, singularly dispiriting and repellent. It was dry, precise, almost legal in manner and wording ; it was altogether devoid of abstract generalities and arguments of the kind which readily fire the imagination of politicians and newspaper men, particularly in this country ; and it laid emphasis throughout on the negative and prohibitory aspect of the proposed constitutional changes, making no attempt to expatiate upon, or indeed even to explain in much detail, the extent of the immense transfer of power to Indian hands which it implied. Even responsible European officials were heard to remark that, so far as manner and phraseology were concerned, it could scarcely have been more offensive to Indian sentiment if it had been expressly designed for the purpose. And, although the majority of Indian politicians of standing were well aware of the parliamentary reasons why it was framed in this particular shape, and recognised also that at any rate most of its contents derived directly from the Round Table Conference agreements, sentiment has in the past played so peculiarly important a part in Indian politics that there seemed a real danger that the cold and uninspiring way in which the White Paper was written might cause a serious emotional reaction against the actual proposals it contained.

Disappointment with the form of the document and with portions at least of its substance was therefore genuine, and would alone have sufficed to account for a good deal of the adverse criticism directed against it. The stream of denunciation, however, was artificially augmented from other sources. The fact that the measure

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of real power and responsibility enjoyed by the generality of Indian politicians has hitherto been relatively small has rendered criticism among them of anything emanating from Government habitual, and much of the condemnation with which the White Paper was received was manifestly of the parrot-like kind to which everyone is well accustomed in this country, and to which no great importance is attached. In addition, there is no doubt that the propensity of Indian politicians and publicists for indulging in purely automatic abuse of any official proposal regarding the future government of this country was reinforced on this occasion by the desire to neutralise by means of denunciations here the utterances of Mr. Churchill and his supporters in England. Finally, the fact that the Government is still engaged in carrying on a species of "war" with the Congress, rendered it inevitable that the White Paper, whatever its form had been, should be condemned by all newspapers, associations and individuals who have definitely committed themselves to supporting the Congress policy.

The reactions of the Congress to the document have been interesting. For a period of about a month before it was published there were increasing signs that many Congressmen felt that persistence in their present policy must prove politically suicidal, and that, since the civil disobedience movement on this occasion had obviously failed, it had better be definitely abandoned, and some arrangement made for working with the Liberals and other nationalist groups to secure "the substance of independence" for India. Influential pro-Congress newspapers such as the *Tribune* (Lahore), both before and after the White Paper was published, devoted much space to urging the importance of organising "a united national effort" to obtain an ampler measure of reforms than appeared likely to emerge from the Round Table Conference scheme, and it was clear that among nationalists of various schools of thought there was a growing conviction

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that persistence by the Congress in the civil disobedience policy was futile. Mr. Jamnadas Dwarkadas, a prominent Bombay Congressman, had in February publicly repudiated the Congress creed, and subsequently in an open letter to Mr. Gandhi, which was extensively reproduced in the press, remarked that,

if after starting non-co-operation you could negotiate with the Government on its Communal Award, and from behind prison bars could launch a campaign against untouchability, and even advocate co-operation, then no man of common sense will accept your argument that you cannot call off a movement which thousands have joined solely in deference to your wishes.

At about this time Sir Chimanlal Setalvad, the Liberal politician, in a statement to the *Times of India* on the general political situation, declared that it was the clear duty of Mr. Gandhi to call off the civil disobedience movement, which had been rendered moribund by the firm policy of Government, and thus to end the sufferings of thousands of misguided Indians in jail. Mr. Chagla, a nationalist Moslem of Bombay, who has closely identified himself with the Congress creed in the past, pleaded in a speech at a meeting of the Moslem students' union for the abandonment of the civil disobedience movement. Mr. Kelkar and Dr. Moonje, the Hindu Mahasabha leaders, who have also from time to time been associated with the Congress, made similar suggestions, the former advising the Congress in a series of articles in his paper, *Kesari* (Poona), to withdraw civil disobedience and concentrate on the capture of the legislatures under the reformed constitution, since the movement had outlived its usefulness and the people had become disgusted with it. During the confabulations at about this time, which took place in Poona and Benares amongst such Congress leaders as are at present at liberty, it is believed that an influential section of those present, including Mr. Aney, the acting President, expressed themselves in favour of abandoning civil disobedience. The consensus of opinion, however, is known

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to have been against this course, and it was due to this that the intention of the Congress to hold their annual session in Calcutta at the end of March in defiance of the anticipated prohibition by Government was persisted in.

The attempted session, however, was manifestly a fiasco. Its organisers, it is true, succeeded in persuading a fair number of "delegates" from various parts of the country to make the journey to Calcutta,* and some of these managed to hold a species of meeting in the city, during which small portions of pre-arranged resolutions are claimed to have been read. It was, however, obvious enough that the decision to hold a session could only be justified if it enabled Congress to work up enough popular excitement to cause, on the one hand, a definite revival of interest in, and sympathy with, the civil disobedience movement, and, on the other, manifestations of "cold feet" on the part of many of those who would normally accept invitations to attend the Joint Select Committee. And it was soon clear that in both these respects the Congress had signally failed. Even in Calcutta, very little interest was taken in the proceedings, their intrinsic absurdity being emphasised by the fact that Government decided that it was not worth while to retain in captivity for more than 48 hours or so those whom they had arrested in connection with it; and the country as a whole remained almost entirely unmoved, the spectacular and widespread *hartals* and so forth, which during the 1930-31 civil disobedience movement were the almost inevitable consequence of arrests of Congress leaders, being conspicuously absent. Again, as regards the intimidation or exercise of pressure upon the moderates, the publication to-day of the very satisfactory list of widely representative Indian

* The vast majority of these, however, came from two provinces only, the United Provinces and Bihar and Orissa. The relatively very meagre response from elsewhere must have been disappointing to the Congress leaders, particularly in the case of Bombay, in view of the hold they have hitherto exercised over that part of India.

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politicians who will be attending the proceedings of the Joint Select Committee is sufficient to demonstrate how complete the failure of the Congress has been.

There seems now no reason at all to doubt that during the last year or so an increasing proportion of the politically minded classes, owing partially to the experiences of 1930-31, and partly to the near prospect of obtaining a large measure of political power under the reforms, have begun to look with active disfavour upon subversive activities and to approach political problems in a more realistic spirit than has been customary in the past. The debates on the White Paper in the Legislative Assembly, the Council of State, and the various provincial Legislative Councils were throughout practical in tone, and although, as we have seen, there was a great deal of adverse criticism of the details of the scheme, there was singularly little inclination to consider it from the standpoint of abstract political theory, and such appeals to sentiment as were made regarding it fell noticeably flat. If, as appears probable, this tendency to eschew emotionalism and concentrate on common-sense practical details remains a feature of Indian politics until the new constitution is established, the prospects of its working successfully may be considered bright.

India.

April 21, 1933.

POSTSCRIPT.

Mr. Gandhi, who had just commenced his three weeks' fast on behalf of the untouchables, was released from Poona gaol on May 8.—EDITOR.

CHINA AFTER THE LOSS OF MANCHURIA

THE Manchurian affair presents to the outside world an abnormal number of international aspects. Besides the question of the relations between the principal parties there is the League of Nations constitutional aspect, the Russo-Japanese, largely strategic in character, the American-Japanese and, closely connected with it, the momentous problem of the balance of power in the Pacific ; there is the point of view of Manchuria and its inhabitants, of the reactions inside Japan and, finally, the effect on China and on Chinese foreign relations.

From a world standpoint the last of these aspects is certainly not the least important. The question how far China, emerging from the crucible of the Manchurian troubles, will be a changed China is one of primary interest, and it is this aspect of the problem which is considered in the following pages. It may appear somewhat premature to attempt to estimate the effects of a conflict which at the time of writing is still in progress, and one does so with the consciousness that events yet to come may stultify present conclusions. But those who deal with Far Eastern affairs learn the hopelessness of waiting too long on events, and a point has been reached which seems to justify at least an *interim* summing-up on broad and general lines.

I. THE ECONOMIC EFFECTS OF THE LOSS

THE effects on China of the Manchurian affair fall conveniently under three headings, the economic, the political and the psychological, meaning by the last of these the impress on the Chinese mind. To begin with the economic, the first question to consider is what China has lost by the cutting off of her Manchurian provinces. For this purpose let us, for brevity's sake, take "China" as

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meaning the China of to-day—China within the Wall—and limit the meaning of loss to the actual injury incurred, without taking into account the loss of future potential benefits. It is true, looking ahead, that the potential losses may in the long run prove vastly the greater, but to reckon the “might have beens” would lead us too far afield and involve us too deeply in the realm of speculation.

The only practical course, then, is to base our enquiry on the facts of the situation as they were at the time when the separation of China and Manchuria took place. What was the economic benefit accruing to China prior to that date and how much of it has been lost? Economically Manchuria was already almost a separate unit, divided from China by a belt of mountainous country with only one practical land route running along a narrow corridor between the mountains and the sea and a single line of railway* passing through the gap. By sea, it is true, communication has always been easy between the coasts of the two promontories—the Shantung and the Liaotung—which face each other at the mouth of the Gulf of Chihli and are less than 100 miles apart; but apart from the “coolie traffic,” with which we will deal later, the business from port to port has been of relatively small importance. The far more considerable trade route between Dairen and Shanghai carried mainly transit cargoes in so far as China was concerned. Intercourse generally between Manchuria and China was on nothing like the same scale as between the individual provinces south of the Wall.

Manchuria’s railways had developed independently and, taken as a whole, were almost completely divorced from the railway system of China. She is self-sufficing also in the matter of sea ports, of which she possesses three, including that of Dairen which has hitherto ranked as the third in

* The division of this railway into two halves, managed one from each end, and with the revenue similarly appropriated by an act of *force majeure* on Mukden’s part, was a typical instance of the relationship between the central and Manchurian Governments.

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importance in China. Commercially Manchuria stood on her own feet, having, unlike the rest of China, a favourable trade balance. The customs, the posts and the Salt Gabelle were under the control of the central Government of China which received the revenue of the two former and part of the revenue of the third. For the rest the public finances were almost, if not entirely, distinct from those of Nanking. Lastly, the military establishments—an essential matter to take into account in any reckoning up of Chinese economic affairs—stood on a wholly separate footing, while for the supply of munitions of war the Manchurian Government had its own arsenal at Mukden.

Under these conditions the economic interdependence of the two territories, as well as China's share in the natural wealth of her Manchurian provinces, were less than might at first sight have been expected, and any analogy one might be tempted to draw between these and superficially similar cases, such as that of Alsace-Lorraine or Upper Silesia, would be apt to be very misleading. With this qualification in mind let us now consider in turn the most important respects in which China's economic position is, or is capable of being, affected by the loss of her three "Eastern Provinces" and the setting up of an independent Manchurian Government.

First, to take emigration. The outlet for over-population which Manchuria has for years past provided by absorbing every year several hundreds of thousands of Chinese peasants from the provinces of North China has been closed by the present crisis and its reopening will depend on whether conditions of peace and security are established in the northern and western regions to which most of the emigrants used to go. No one can say when and under what conditions the movement will recommence. If it starts afresh when Manchuria settles down, the emigrants who are for the most part Shantungese (some of the best human material in China), will in any case be lost to China as citizens. The economic importance to be attributed to the

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stoppage of immigration will of course largely depend on the view taken with regard to the whole problem of Chinese over-population, though the monetary side also enters into the account through the loss of the remittances sent back by the settlers to their homes in Shantung or other parts of North China—the counterpart on a very much lesser scale of the huge influx of money into the ports of Southern China from the colonies of Chinese in America, the Dutch East Indies and elsewhere.

Akin to this stoppage is the loss of imported wealth formerly brought back in the form of savings by the army of seasonal labourers who went every year to Manchuria and shared in the prosperity which she derived from the great increase in her bean trade. In this connection, the wider question arises : how much of the profit accruing from the favourable balance of trade of the three Eastern Provinces found its way into the rest of China ? This is not an easy question to answer. The existence in the heart of Manchuria of the South Manchurian Railway with its many industrial subsidiaries, the profits of which passed into alien hands, the official manipulations of the Manchurian currency and the unknown factors of military expenditure and of financial "deals" between the Mukden and Nanking Governments make it impossible to determine the eventual destination of the credit balance of trade. That considerable funds accumulated in the hands of Manchuria's rulers is a notorious fact, and a proportion of them must certainly have found their way into China proper. This was especially the case at the end of 1930 after Chang Hsueh-liang had transferred his headquarters from Mukden to Peiping and brought Manchurian wealth to the old capital of China, which in consequence experienced a visible recovery from the bitter impoverishment of the previous few years. Besides these various channels for the flow of funds from Manchuria into China which for the present have ceased to exist, we have to remember the contributions from the Customs and Salt Gabelle to the central Government's

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exchequer. The former used to amount to nearly one-third of the total Customs revenue and its loss represents a serious diminution of the Government's income.

The last important factor is the volume of trade. There are no available statistics which would enable us to make an accurate measure of the China-Manchuria trade, but according to the calculations of the experts attached to the Lytton Commission,* China's share in Manchuria's imports during the years immediately prior to the crisis was about 32 per cent. and her share in the exports about 25 per cent. The Chinese market for Manchurian natural products—soya beans, especially in the form of beancake fertiliser, grain, coal and timber—and the value to China of the Manchurian market for her cotton-piece goods and other manufactures has to be estimated in the light of its great potentialities, as well as in that of its development up to date. Any permanent curtailment would certainly be a serious loss. It must be remembered too that Shanghai has served as the entrepôt for most of Manchuria's trade, and that Chinese shipping carried some 10 per cent. of the trade with Manchurian ports. To what, if any, extent China is destined to suffer in these respects—trade, agency and shipping—through the creation of Manchukuo still remains to be seen. It will depend of course mainly upon the Manchukuo policy with regard to tariffs and other restrictive measures. Last year's figures for the port of Dairen actually show a substantial rise both in imports and exports with China, but until the political trend is clearer there is very little to build on. One circumstance, which in any event should stand China in good stead, is the fact that the bulk of Manchuria's trade is, and seems sure to remain, in the hands of Chinese.

This weighing up of China's actual losses in the economic field, judged with a due sense of proportion, inclines one to the view that they are not of vital importance and

* See Special Study No. 6 annexed to the Lytton Report. China's proportion of Manchuria's trade as a whole is there given as 28 per cent., comparing with Japan's 40 per cent. share.

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that the course of Chinese affairs is hardly likely to be affected by them to a very material extent. Nanking has been hit in its revenue, and there are elements in the north, especially in Shantung, which are feeling the pinch from the stoppage of emigration and the inflow of imported funds; but, taking China as a whole, it is probably safe to say that very few of the population will be conscious of any change in their daily life as a result of Manchuria's new status. As the Lytton Report remarks: "The principal ties between Manchuria and the rest of China are racial and social rather than economic."

II. THE POLITICAL EFFECTS

THE political effects of the conflict with Japan and the creation of Manchukuo can be divided into those which affect China from outside and those which affect her from within. In the former category the most vital are first the effect in connection with her northern frontier, secondly the effect on her relations with Japan and Russia, and lastly the effect upon her position *vis-à-vis* the League of Nations and the world at large.

The old Argun-Amur boundary with Russia, though productive of much friction at various times, was on the whole a reasonably stable frontier. Manchuria itself, moreover, which bore the brunt of frontier disputes and took the shock of any armed conflict which might occur, served as a buffer for China. So long as Manchuria's relationship to her remained what it was there was no great risk of China as a whole becoming embroiled in a vital frontier dispute with Russia. From the strategic point of view her remoteness from the vital points of contact was a guarantee of security for China. The new frontier-to-be (assuming no permanent occupation by Manchukuo-Japanese troops of China proper) will presumably follow the line of the Great Wall or rather the foot of the ranges along which the Great Wall runs. For China this will mean a far worse

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strategic position, the reappearance, in fact, of that secular threat from the north which has played so large a part in modelling her history. Whoever holds the passes has Peking and the northern plain at his mercy. The implications of this alteration in the strategic position are too wide to trace out here, but it is obvious that the change may have the most far-reaching consequences.

A secondary point about the new frontier is the fact that its eastern extremity will intersect a region of great mineral wealth. The rich coal deposits worked by the Kailan Mining Company are 90 miles distant from Shanhaikuan. The dangers inherent in the close proximity of valuable sources of supply to an international frontier require no emphasis.

The question of China's future relations with Japan opens up a vast field of enquiry in which for the purpose of this article we can only select a few of the most prominent features. Reserving for a later page the "pyschological" aspect, let us for the moment look at the position from a purely objective standpoint. Thus regarded, perhaps the most pregnant effect of Japan's action in Manchuria upon her relations with China is the change that it has brought about with regard to the old sources of friction between the two countries. The effect, if one may put it so, has been to "fund" the Manchurian points of conflict. The long list of disputes over the building and financing of railways, over tenure of land, over the status of Koreans and other such matters is now wiped off the slate so far as Nanking is concerned. For China their place has at the present moment been taken by a comprehensive antagonism directed against the invader of Chinese soil. We must also, however, remember that a fresh batch of problems is almost bound to arise later on in connection with two fresh factors—the new international frontier and the passing under Japanese control of a population of 28 million Chinese. The new frontier will, for all practical purposes, place Japan on the threshold of North China. Besides the new strategic advantages in a purely military sense which the position

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gives Japan, it will put into her hands the power of intervening in Chinese domestic affairs in the neighbouring northern provinces, where conditions are in a chronically unstable state. The threat of such intervention will in its turn provide a means of putting pressure on the central Government of China.

To hazard a general conclusion, the removal of the old causes of friction in Manchuria should open the way to better mutual relations, *if* China can resign herself to accepting the new situation and *if* Japan will refrain from exploiting her new power. If, on the other hand, these conditions are not fulfilled and relations remain strained, the potentialities of conflict become seriously increased and the outlook will be gloomy indeed.

Russia, like Japan, had, prior to the *coup* of September, 1931, her own bones of contention with China—the status of Barga, the management of the Chinese Eastern Railway,* the control of the Amur navigation, to cite a few of the most important of them. These matters of dispute were “hang-overs” from the Czarist *régime*, and partially faded out of the picture as a result of the Bolshevik revolution. Very soon, however, they revived and had already led to an undeclared war along the Manchurian border in 1929. The loss of Manchuria has liquidated these former Russian disputes for China, in the same way as the old troubles with Japan, and relations have become easier in consequence. The Governments of the two countries, meanwhile, found themselves ranged together in a common grudge against Japan. It therefore, surprised nobody to see them agree to restore diplomatic relations—suspended since Borodin’s days when Russia made her abortive attempt to seize the steering-wheel of the nationalist movement—and it was considered a significant fact that the veteran Dr. W. W. Yen, in the judgment of many the ablest of Chinese diplomats, has been selected by his

* Since this article was written the Soviet Government has offered to sell Japan the Chinese Eastern Railway.

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Government to fill the Moscow post. To maintain a Sino-Russian *entente* notwithstanding the existing position with regard to "communist" China where the central Government is actually engaged upon a military attempt to suppress the "red armies," and to win back the sovietised areas, could not be a simple problem. Much will obviously depend on the policy of Moscow on the question of world revolution as applied to the Far East. The "red" movement in central China appears, as a matter of fact, to have been comparatively free from direct Russian control for the last few years.

We must now turn to China's relations with the League of Nations, its member nations, and the United States of America. An immediate effect of the crisis was to bring China into intimate touch with the political side of the League. Apart from the (more or less personal) action of Mr. T. V. Soong in obtaining for China technical assistance from Geneva, the League has in the past filled a rather insignificant place in Chinese eyes, notwithstanding the fact that China has for many years been represented on the Council. The ordinary Chinese knew and cared little about the League. When the crisis arose it suddenly appeared as a heaven sent agent for the extrication of his country from a situation which by itself it was powerless to mend. When it became plain in due course that the Powers would not coerce Japan the inevitable reaction occurred. The League fell from its pinnacle, its popularity vanished and it is now very widely regarded as a broken reed, a delusion.

However deplorable this attitude may seem, a moment's reflection will show its inevitability. At a time when League standards for the conduct of world affairs are proving so far beyond the reach even of the organised western Powers, one cannot expect them to count for much in a country in the disorganised state of China. She has her idealists—some of them, as her records proclaim, ready to uphold their ideals at the cost of their lives—but to the mass of the Chinese people League con-

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cepts are too remote from the common experience of life to have much practical meaning. The gap between what the League stands for and what China actually is, is, in fact, a little too wide. While there were signs that the League Powers might—whatever their motives—fight China's battle for her, the League of Nations was all that China could wish; when the contrary proved to be the case the League's bubble was pricked.

A similar reaction against individual Powers has shown itself in such manifestations as the unbridled wave of resentment with which a large part of the Chinese press and Chinese public opinion greeted Sir John Simon's "anti-Chinese" speech to the League Assembly. This hostile feeling may be—one feels hopeful that it is—no more than a transient phase, but it carries a latent threat which many Chinese are not unready to stress. The shattering of the hopes which were placed in Geneva and Washington will, it is said, result in China turning towards Moscow, and a further strengthening of the new bond forming between the two neighbours.

In conclusion one cannot refrain from mentioning one concrete result which the Manchurian dispute has had upon Sino-foreign affairs. Negotiations with Great Britain for the relinquishment of extraterritorial rights—implying in due course the termination of the present *régime* at Shanghai—had got as far as the initialling stage in the summer of 1930. Although a check had occurred due to an unwillingness on both sides to confirm the initialled draft (the Chinese fearing political reactions at home, the British Government not uninfluenced, perhaps, by the Thorburn case* and its popular repercussions), there was good cause to suppose that the suspension was only temporary and that *pourparlers* would be resumed without any long delay. In the meantime, however, the Manchurian crisis arose and attention was diverted to other

* In June 1931, Mr. John Thorburn, a British subject, was arrested by the Chinese, charged with killing a gendarme, and executed without trial.

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matters, the "extrality" problem was shelved and there is no certainty at the present moment when or in what form it will again be brought on to the *tapis*. It may be noted, however, in passing that local negotiations on the outstanding issues between the International Settlement and Chinese "Greater Shanghai" have been continued and made favourable progress, bidding fair to lead to a settlement which will solve a few at least of the most urgent questions with regard to foreign rights.

Chinese domestic politics are, in themselves, so confused and entangled that to separate out with any certainty the effects of the Manchurian crisis on internal affairs is an impossible task. One cannot even give an assured reply to the persistent query whether Japan's attack has served to consolidate the country and lessen domestic strife. In a negative way one may point to the absence of civil war, other than local outbreaks, as evidence of the restraining effect of aggression from outside; but it is hard to discern any positive signs of closer union or even of a disposition on the part of the various cliques to sink their quarrels. The relations between Nanking and Canton—the most important in the field of internal politics—have certainly not improved and are frankly disappointing. If foreign aggression has had any unifying effect it has been among the people rather than among the politicians and "leaders."

More direct and definite consequences of Manchurian events seem likely to show themselves in the period that lies ahead. North China has been thoroughly disturbed. The exit of Chang Hsueh-liang (against whom the Japanese are reputed to have a strong personal grudge) leaves a political vacuum which the Nanking Government may, or may not, find itself able to fill, while at the same time monarchist and anti-nationalist elements from over the frontier are said to be harbouring schemes to seize the power at Peiping. The upsetting of equilibrium in the North reacts upon Nanking, whose prestige is already somewhat shaken by its inability to deal effectively with

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the military situation—a handle of attack which its political rivals do not hesitate to use. To this extent the Manchurian situation has tended to weaken central authority in China and to make more imminent the ever-present risk of the country lapsing again into a state of political disintegration.

III. THE PSYCHOLOGICAL EFFECT

IT has been possible to describe the economic effects of the Manchurian affair on China with a certain degree of assurance. To approach the question of the political effects with equal confidence is difficult—to attempt to define the psychological effects must almost savour of rashness. It is neither possible for a foreign student of affairs to explore the Chinese mind with any great feeling of certainty, nor can one say—as one does of our Western press-ridden countries—that “China” thinks this, or “China” feels that, on any particular subject. Insomuch, however, as the psychological effects may, in the present instance, prove in the end the most important of all, they call for an effort to detect at least the main currents of thought set up by the events centring round Manchuria. The present attempt is based on views in the Chinese press, on personal contacts with educated Chinese and on the reports of foreigners in the interior who are in touch with the peasant masses.

The Chinese peasant, as a whole, has an extremely narrow horizon, which embraces with difficulty events in distant parts of the country. Even exposure to war and its repercussions is, alas, only a normal experience in many parts of the country where fighting and soldiery, together with floods, famines and bandits, are regarded as common misfortunes. It is true that conditions are rapidly changing under the influence of the new popular press, of the “mass educational movement” and similar aids to literacy and, near the larger cities, of educational and propaganda cam-

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paigns undertaken by students throughout the country-side. It is doubtful, however, whether Manchurian affairs have produced in the mind of the rural masses anything more definite than vague feelings of hatred and horror stirred up by highly coloured descriptions of incidents in the conflict. In any case peasant opinion, in its present stage of development, is hardly a calculable factor in considering China's political course.

The town worker's position differs from that of the peasant mainly in degree. He is naturally more exposed to the influence of newspapers, and one of the striking features of last year's Shanghai affair was the comet-like rise of the "mosquito" press. Special "war extras" were rushed away from the printers, hawked noisily through the streets and snapped up by the mob in a manner reminiscent of war-time conditions at home. Mob passion is as easily excited in China as anywhere in the world, and there is no doubt that anti-Japanese feeling has run very high in the towns. The psychological aspect has a special importance as the boycott can only survive effectively so long as feeling persists among the proletariat and small shopkeeper class. While the feeling is strong there is also the standing danger of violent outbreaks against Japanese life and property, possibly opening the way to fresh hostile operations.

Among the educated classes—who alone supply an effective public opinion in so far as it can be said to exist—one comes upon several distinct currents of thought. The students, true to type, worked themselves up to a high pitch of excitement, leading to such excesses as the physical attack on Mr. C. T. Wang when he was Foreign Minister, and on other members of the Government at Nanking. Their agitation for military resistance to Japan has not been entirely confined to words. The number of students who have actually joined the ranks is probably very small (though cases of enlistment in the armies are within the writer's knowledge). A strong movement has, however,

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set in for physical military training and for the study of military subjects as a step towards the creation of an up-to-date national force.

In this connection the advances of recent years in the military state of China have to be taken into account. The standard of the bulk of the regional armies may not have altered much, but the creation of "picked units" has gone rapidly ahead. A new class of professional officer has emerged from the military schools—very different from the old ignorant type; technical officers have been engaged from abroad and a great advance has been made in arms and equipment. The result showed when some of these picked units—the XIXth Route Army and the 87th Division—faced the Japanese at Shanghai, and by their determined resistance both surprised the world and roused in China a wave of military enthusiasm. There are indications, of which the attitude of the students is an outstanding example, that a new military spirit is being engendered in China and that a "militarised" China according to Western standards may be a far more imminent development than most people have imagined. Though somewhat outside the proper scope of this article, an allusion here to the export of foreign arms to the Far East is hardly to be avoided. One cannot but ask whether the Governments of the exporting countries are fully alive to the risk of there growing up a militaristic China and whether allowance is made for the possible consequences in the event of China attaining a greater degree of unity. To watch the Disarmament Conference at work and the simultaneous stream of war material pouring into China and Japan gives an impression of incongruity which would hardly be surpassed at a meeting of experts discussing fire extinguishers and throwing matches into the dry grass behind them.

The student body, whose influence in China to-day is disproportionately great, has violently opposed coming to terms with Japan and is a powerful obstacle to any move

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towards a direct settlement—for which, by the way, some sections of the Nanking Government are said to be not disinclined. A different frame of mind is met with in conversation with members of the banker-merchant community, which is becoming more and more of a political force. Its *élite* meet and seriously discuss national affairs, and from this habit there is steadily emerging a corporate body of opinion which, though by no means proclaimed from the house-tops, exercises a strong influence in China and is brought to bear in discreet but effective ways at political head-quarters. The feeling one encounters among this small band of leading bankers and merchants is as strongly nationalist as that of the students and little, if at all, less bitter against Japan. It is tempered, however, by a recognition of the fact that much of the present disaster has been brought on China by herself, and by the realisation that in her present chaotic state she is impotent to stand up for her rights. The policy, therefore, to which it gives rise is one of cutting the loss. "Manchuria has gone ; we shall make matters worse if we persist in a hopeless struggle ; let us accept the position for the present and devote ourselves to rebuilding our national strength. In time we shall face our adversaries on an equal footing."

Such is the frame of mind of a section at least of the mercantile leaders, and with it goes a highly critical attitude towards public affairs as they are in China at the present time. A self-searching tendency and a demand for the overhauling of the whole national machine shows signs of replacing the spirit of moral surrender to the hopelessness of the situation into which many of the best Chinese seemed to be sinking before the crisis arose. Nor is this reaction to the crisis—this turning of the eyes inward—confined to a single class. Plain speaking about the evils and abuses current in public life has come in no soft terms from the highest quarters, notably in the speeches of Chiang Kai-shek, while evidence is not lacking that the friendly strictures contained in the Lytton Report—

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especially those on the subject of anti-foreignism—are, in spite of all protests, having their effect on the popular mind.

Although the same movement towards a national “stock-taking” and concentration upon reforms at home appears also among the students and the leaders of the academic cultural world, there is a conflicting attitude of mind which at times finds expression there—an attitude which says : “ We know we are no match for our enemies. But China must save her soul at whatever material cost. It is only by fighting to the end that our country can find itself. Our numbers anyhow must prevail in the long run ; we can afford ten lives for every one of our enemies. Let us, therefore, maintain the struggle and trust that time and exhaustion will come to our help in the end.”

One other trend must also be mentioned—it has come to one’s notice in recent months. We have already spoken of the feeling of disillusionment over the absence of help from Europe and America. Growing out of this one sees signs here and there of a general disgust with “ western ” things as a whole, a tendency to turn back from the path of “ westernisation ” to which China has so far committed herself. It is hard to distinguish how much of this tendency, where it exists, is due to disappointment at Geneva and how much of it to the sorry spectacle which at the present juncture the West as a whole presents to the East. The Great War shook China’s all too unquestioning faith in western morals, western science and western institutions. How great the likelihood is that a further shock—combined with such proof as the past year has given of the decline of the Great Powers’ effective interest in the area of the western Pacific—may start China off on a changed course, is a matter for careful thought and for serious concern to those who care for her destiny.

China.

April, 1933.

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TREATY REVISION

THE veil has not, at the moment of writing, been lifted from the negotiations which are in progress for what is generally known as the Four Power Pact, but it is common knowledge that one of the objects that is being discussed is the possibility of revising the Peace Treaties in certain respects. It is not the purpose of this article to discuss the advisability of attempting revision at the present juncture—some suggestions on the question of policy will be found elsewhere*—nor is it our object to prejudge any of the questions involved, but merely to give a brief indication of the character of those questions.

I. THE GENERAL PRINCIPLE

THE term “treaty revision,” in its currency at the present moment, is being used in a special restricted meaning which is not apparent on the face of the two words. It is being used to mean the revision of the territorial provisions of the Peace Treaties in which the political map of the world was re-drawn after the war;† and it is being used to mean the revision of these particular chapters of these particular diplomatic instruments by a peaceful agreement as opposed to a violent resolution of forces in a fresh outbreak of war. It is in this special sense, in which “treaty revision” is on the agenda of the world’s affairs here and now, that we propose to use the term in this place.

The raising of the issue of treaty revision in this sense of a pacific revision of territorial arrangements is a new departure in the history of international relations; and it is in the combination of pacific revision with territorial questions that the novelty lies. There is nothing new about the pacific revision of non-territorial arrangements. To look no further than the set of peace treaties that are

* See p. 493.

† A map showing these changes will be found on pages 590, 591.

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now in question, their financial chapters have been revised peacefully already, and even their military, naval and air chapters may—if the World Disarmament Conference avoids breakdown—go the same way. Again, there is nothing new about the revision of territorial peace terms by fresh outbreaks of violence. To look no further than the last general territorial re-settlement but one, after the last general war but one, we may observe that almost all the territorial provisions of the peace settlement of 1814–15, which followed the wars of 1792–1814, had been revised by violence before the outbreak of the next general war in 1914. The only two noteworthy exceptions are the political union of Norway with Sweden, which was dissolved peacefully in 1905, and the Russo-Prussian frontier repartitioning Poland, which was drawn at the Congress of Vienna, and which survived until the war of 1914–18, though it was perhaps the most iniquitous product of the whole post-Napoleonic settlement. (The reason why this particular frontier survived was that Russia and Prussia were bound together by their common interest in perpetuating the results of their common crime against Poland, even after they had drifted into opposition to one another about almost everything else.)

It will be seen that, by one or other of the two alternative methods of peaceful reconsideration or fresh recourse to armed force, peace treaties—to judge by recent history—always are revised out of all recognition sooner or later, and this in their territorial chapters as well as in other spheres. And the reasons for this matter of historical fact are not far to seek. In the first place, it is evident that even the most consummate political wisdom incarnate in mankind at any given moment is unequal to the task of politically re-mapping the world, and re-mapping it permanently right, in a single act of settlement! Wisdom, as we believe, in an empirically minded England, comes mostly by experience and hardly at all *a priori*; and to learn by experience takes time. And then again, at the

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close of any general war, the peoples are as a rule in the wrong mood and the governments in the wrong hands for exercising any sort of political wisdom. For the moods and the men that are the best for winning wars are clearly not the best for making successful peace settlements (which means subordinating present passions to a long and dispassionate view of the future). Finally, in violent and general wars "war aims" as a rule crystallise into a vindication of general principles which have usually become half anachronisms before they are taken up by the victors. For example, the peace settlement of 1814-15 was made by the coalition that had beaten Napoleon in the name of the principle of "dynastic legitimacy," at a time when legitimacy was already doomed to forfeit to nationalism such hold as it had over men's hearts and consciences. Similarly, the peace settlement of 1919-20 was made by the Allied and Associated Powers which had beaten Germany in the name of the principle of "national self-determination," at a time when nationalism was bound to wreck society, if it could not, or would not, accommodate itself to the exigencies of the new economic and financial system of "the machine age," which cannot operate effectively on anything short of a world-wide scale.

These considerations indicate why it is that peace settlements always are ephemeral; on this occasion, however, there is, we may be confident, no idea in the mind of our Government of any revision that would upset the principles of the settlement of Versailles. Whatever the dangers inherent in the idea of national self-determination, it still holds the field as firmly as ever, and apart from this, public opinion, both in this country and in France, would be strongly against any dangerously drastic course—many, indeed, doubt whether, in view of what has been happening in Germany, it is a suitable moment even to revise details.

If revision, then, is attempted, it will almost certainly be confined to one or two danger-points which, if left as they are, might later involve Europe in war.

The Problems of the Territorial Settlement

Territorial changes will necessarily be confined to a minimum. This is a common-sense principle which is dictated by the very complexity and delicacy of our latter-day social structure in this "machine age." In the age of Charlemagne, or even in the age of Charles V, when the normal economic unit of western life was the self-sufficient agricultural village community, these social atoms could be arbitrarily separated from or combined with one another politically with relative impunity. In these latter days of machine-made interdependence, the social life of mankind has become a seamless robe in which the economic and political threads are almost inextricably interwoven; so that even the deftest attempts to unpick and re-weave the political threads are bound to damage the whole texture of our social life most barbarously. The sequel to our light-hearted political re-mapping of the world in 1919-20 surely shows that territorial revision ought to be regarded as being strictly an *ultima ratio*. It goes without saying, moreover, that if any cases come up for revision, they will necessarily be examined not on *a priori* grounds, but in a concrete common-sense way on their own individual merits, in the light of all the relevant considerations, linguistic, economic, historical, emotional and strategic.

At the moment of writing we can only guess which particular cases are occupying the attention of the Powers—it may even be that before this article reaches the reader the negotiations will have broken down. But the fact that they are taking place brings the Versailles territorial settlement and the various problems to which it has given rise once more into the foreground. In the section that follows we propose to describe these questions.

II. THE PROBLEMS OF THE TERRITORIAL SETTLEMENT

PERHAPS the most prudent way of approaching the difficult problems is to glance at the less contentious provisions of the settlement. Alsace-Lorraine, of course,

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is now a settled question. In the Pact of Locarno Germany renounced all pretensions to sovereignty over these provinces. The Alsatians, it is true, speak German and are racially of the same stock as the people on the other side of the Rhine. They are also quite naturally finding some difficulty in reintegrating themselves into France. But the Germans themselves have never ventured to suggest that they are now looking back wistfully to their half century's experience of life in an Alsace which was a German *Reichsland*. Alsatian discontent in its extreme form has rather taken the direction of a desire to become an independent neutralised State like Switzerland, belonging neither to France nor to Germany. To-day the current controversies over local self-government in Alsace, and over the local relation between State and Church, belong to the domestic politics of France.

Another territorial arrangement made in the settlement of 1919-20 which is looked upon as non-contentious, is the transfer of Northern Slesvik, by the post-war plebiscite, from Germany to Denmark. For Denmark, in the Paris peace settlement, showed herself a paragon of good sense. She had a prospect of obtaining, at the hands of the victorious Allied and Associated Powers, a considerably larger slice than she has actually accepted of the territories that were taken from Denmark forcibly by Prussia in the war of 1864. Yet, in this situation, the Danes were wise enough neither to think in terms of "historic rights" nor to feel in terms of revenge. They realised that the disaster of 1864 had come upon them because, in the peace settlement of 1814-15, they had been cajoled into accepting the German territories of South Slesvik and Holstein in compensation for the loss of Norway (which was transferred in 1814-15 from Denmark to Sweden in order to compensate Sweden, in her turn, for the cession of Finland to Russia). In 1919-20, the Danes were determined not to repeat the mistake of a century before; and they therefore refused to take back from Germany any part of Slesvik in which the

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local population did not declare its wish to be re-transferred from Germany to Denmark in unmistakable terms in a properly conducted plebiscite. These were the circumstances in which the present "post-war" frontier between Denmark and Germany was drawn.

Eupen and Malmedy are in the same position as Alsace and Lorraine. Under the Treaty of Locarno Germany voluntarily accepted the territorial position as between herself and Belgium fixed by the Treaty of Versailles. The grounds on which Eupen and Malmedy were transferred to Belgium were that, although five-sixths of the joint population of 60,000 were German speaking, the majority were held, in origin, to be French speaking Walloons, only Prussianised as a result of having been taken from Belgium and assigned to Prussia in 1814-15. (About 94 per cent. of the inhabitants of Malmedy were still French speaking.) The people of the two districts were allowed by the Treaty to record their wishes in a register kept open for six months, but only 271 declared for remaining with Germany. The Germans lodged a protest on the ground that signature, being public, led to intimidation, but it was disallowed by the Council of the League. The annexation was finally declared in 1925. Germany has twice offered to buy the districts back, once in 1926, and again in 1929, but without result.

We now come to a more contentious question—a big irredentist claim—the case of the Bohemian Germans, who, in spite of their language and their nationality, and their strongly expressed German national sentiments, were transferred in the peace settlement from pre-war Austria to the newly created "succession State," Czecho-Slovakia. The German contention is that these Germans, who inhabit the region adjacent to their own frontier, should be incorporated in the Reich. To hand over some three million Germans to Czecho-Slovakia was certainly a strong measure. The new State was thus saddled at birth with one alien minority which (apart from the Hungarian and Ruthene





1. Alsace-Lorraine—to France (T. of V.).*
2. Saar Basin—under governing commission appointed by L. of N. until 1935, when a plebiscite will be held. Mines ceded to France till 1935.
3. Eupen and Malmédy—to Belgium (T. of V.), confirmed after plebiscite by L. of N.*
4. Demilitarised zone.
5. Silesia—plebiscite 1920, north part to Denmark.
6. Kiel Canal—internationalised (T. of V.).
7. Polish Corridor—from Germany to Poland (T. of V.).
8. Danzig—free city under High Commissioner of L. of N. (T. of V.).
9. Memel—to Lithuania (Conf. of Ambassadors) 1923. Confirmed by L. of N. 1924.
10. Vilna—by Russia to Lithuania July 1920, seized by Poles Oct., 1920. Boundary defined by Conf. of Ambassadors, leaving Vilna to Poland 1923.
11. East Prussia—plebiscite 1920, retained by Germany.
12. From Russia to Poland, boundaries defined except to East (T. of V.).
13. To Poland after Russo-Polish war (Tr. of Riga 1920).
14. To Poland, and Eastern Boundary defined (and Tr. of Riga 1920).
15. Poland—independence proclaimed 1918, recognised T. of V. Minority population under protection of L. of N.
16. Bohemian Germans.
17. Silesia—plebiscite 1921, dotted part to Poland.
18. Teschen, Osvava and Zips—part to Poland and part to Czechoslovakia after plebiscite 1920.
- 18A. Burgenland—plebiscite 1921, final award L. of N. 1922 to Austria.
19. From Austria-Hungary (T. of St. G.).*
20. Austrian Tyrol—to Italy (T. of St. G.).
21. To Italy (T. of St. G.).
22. Fiume—Free State T. of Rapallo 1920, to Italy by Italian-Jugo-Slav Treaty 1923.
23. Croatia—to Jugo-Slavia from Austria-Hungary (T. of V.).
24. Transylvania—from Hungary to Rumania (T. of Tr.).* Hungarian-Rumanian disputes 1923-27-28.
- 24A. Minority under supervision of L. of N.
25. Bessarabia—from Russia, 1920.
26. Demilitarised zone (Tr. of Lausanne 1923).
27. Minority population under supervision of L. of N.
28. Macedonian Bulgars.
29. From Bulgaria (Tr. of Neuilly 1919).

Besides the above changes, Estonia, Latvia and Lithuania, formerly parts of Russia, declared their independence 1918; boundaries settled 1920 by agreement. Lithuanian-Polish frontier settled by Conf. of Ambassadors 1923.

* T. of V.=Treaty of Versailles 1919.
T. of St. G.=Treaty of St. Germain 1919.
T. of Tr.=Treaty of Trianon 1919.
L. of N.=League of Nations.

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minorities on the opposite flank) amounted to nearly a quarter of its total population. This was hazardous when the political strife between Germans and Czechs in Bohemia had been one of the chief standing political troubles of pre-war Austria for half a century. The act was defended, during the Peace Conference, on the ground that, if the German fringes of Bohemia were cut away, Czecho-Slovakia would be rendered geographically, strategically and economically, incapable of leading a genuinely independent national existence. She was therefore given the old frontier of Austria *vis-à-vis* Germany in Bohemia, and twelve years' experience has proved the inclusion of these three million Bohemian Germans in Czecho-Slovakia to be politically workable, contrary to all the evidence of pre-war history, a fact which speaks well for the self-restraint and positive political ability of the Czechs. Nevertheless, Czecho-Slovakia is at the moment confronted with the danger of these northern Germans becoming Nazis and recognising Herr Hitler as their chief. Naziism has already made considerable headway among them.

Next, we may consider certain possible revisions which, however just in themselves, have been objected to on the ground that they could not be put into practical effect without incidentally producing or reviving other injustices which would be equal or greater.

For example, the extreme south-eastern corner of Transylvania is inhabited by a compact population of Magyars, several hundred thousand strong (the so-called Szeklers), who have genuine grievances against the Rumanian rule to which they have been subject since the peace settlement, and who ardently desire to be reunited with their Hungarian mother country from which they were then forcibly detached. The trouble is that these Szeklers could only be reunited politically to Hungary at the price of forcibly detaching from Rumania, and re-subjecting to Magyar rule, a considerably larger number of Rumanians who were liberated in the peace settlement, and who are just

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as anxious to remain citizens of post-war Rumania as the Szeklers are anxious to return to the bosom of Hungary. Since the Szekler country happens to lie at the very geographical centre of post-war Rumania, it would hardly be feasible to make this Szekler country into a detached enclave of territory under Hungarian sovereignty, on the analogy of East Prussia and Germany—even if the East Prussian arrangement had worked well enough to be an encouraging precedent! The only possible amelioration of the peace settlement that has been suggested, *à propos* of these Szeklers, would be for the world to persuade Rumania, as she values cordial relations with her neighbour, Hungary, to grant them some measure of local self-government under Rumanian sovereignty.

The Germans in East Prussia are not so badly off as the Szekler Magyars in Transylvania because East Prussia has, after all, still been left as a part of Germany, under German sovereignty and government, though it is divided from the main body of Germany geographically by a piece of territory under Polish sovereignty. The Germans demand—and have demanded insistently ever since the peace settlement—that the territorial continuity of Germany on the political map shall be restored by replacing the Polish corridor between East Prussia and the rest of Germany under German sovereignty. The trouble here is that this corridor is to-day inhabited by a mainly Polish speaking population which wishes to remain under Polish sovereignty; so that the German demand for its restoration could only be satisfied by replacing under German sovereignty some hundreds of thousands of Poles who are vehemently opposed to the change, Polish experience of German rule before the war having been extremely unhappy.

All the same, we cannot simply dismiss the German demand for treaty revision in the Polish corridor, for twelve years' experience has shown conclusively that, as a matter of fact, this is really one of the places where the "shoe pinches" and we will return to it on a later page. On the

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same showing, the shoe also pinches in territories that were transferred from Germany to Poland in Upper Silesia ; in the territories transferred from Hungary to Rumania and Czecho-Slovakia ; in Bessarabia, which was transferred from Russia to Rumania ; in Jugo-slav Macedonia, whose Slavonic inhabitants are Bulgars and not Serbs in national feeling ; in the Vilna district, which is reclaimed from Poland by Lithuania ; and in the vast White Russian and Ukrainian territories which are now under Polish rule.

For various reasons, a number of the items in this list are not "practical politics." For example, the Ukrainian and White Russian subjects of Poland who wish to escape from Polish rule assuredly do not want the only alternative which seems at present to be practicable : *i.e.*, to fall out of the frying pan into the fire by joining their fellow nationals who are under the dominion of the Soviet Government. Again, the cases of Russia against Rumania over Bessarabia, and of Lithuania against Poland over Vilna are juridical rather than substantial. The complainants rightly object to the methods of violence by which the Poles seized Vilna and the Rumanians Bessarabia, but the fact remains that Bessarabia is not inhabited by Russians, nor Vilna by Lithuanians. The majority of the inhabitants of Bessarabia are Rumanians, while Vilna is a Jewish city in a White Russian countryside. As for the Macedonian question, it could hardly be solved except by the entry of Bulgaria herself into a greater Jugo-Slavia which had been transformed from a unitary into a federal State.* And as for Upper Silesia, this is essentially an economic problem which can never be solved by re-drawing political frontiers, but can only be solved by a thorough-going economic

* The transformation of Jugo-Slavia from a centralised State under Serbian domination into a federal union, in which the Croats and the Macedonian Bulgars, as well as the Serbs, would have their own local self-government is now the policy of almost all parties and peoples in Jugo-Slavia, including the large Serbian elements in the territories formerly belonging to the old Hapsburg monarchy. This is the policy for which the Croat leader, Dr. Matchek, has just been sentenced.

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concordat between Poland and Germany. What is wanted there is an invisible frontier, like the Franco-Belgian frontier in the neighbourhood of Lille and Roubaix.

We are left, then, with three main points in Europe which might be placed on the agenda of the Powers. These sore points are, first, the Polish corridor and Danzig ; second, the frontier between Hungary and Rumania (except, probably, the question of the Szeklers in the heart of post-war Rumania, which we have dealt with already) ; third, the frontier between Hungary and Czecho-Slovakia. Let us deal with the two relatively simple Hungarian cases first. We can deal with both together, because they are in essence of the same kind.

As between Hungary and Czecho-Slovakia, and between Hungary and Rumania, there appears to be a real possibility of helpful frontier rectification, with a minimum amount of social disturbance. A reconsideration of these two particular frontiers would seem, moreover, to be practical politics. The wise and courageous Czech statesman, M. Benesh, has just, in a public speech, himself admitted the possibility of "a small adjustment of frontiers" on certain conditions,* and has coupled it with the suggestion that this might bring about a reconciliation between Hungary and the three succession States of the defunct Hapsburg monarchy which now constitute the Little Entente. The entry of Hungary herself into the Little Entente was even hinted at by M. Benesh. It is interesting to speculate on the effect that such a step would have on the political and economic situation in central Europe. The example might even tempt Austria.

The case that is put forward for boundary revision is as follows. In the drawing of these two difficult frontiers at the Peace Conference, a considerable injustice was, it is claimed, done to Hungary because, on almost every debatable

* The conditions were : (1) no outside pressure; (2) mutual accord of the countries concerned after a period of peaceful co-operation without threats, pressure or blackmail on one side or the other; (3) adequate compensation.

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point, where it was a question of striking some compromise between the nationality map and the economic map, the arbiters gave the benefit of the doubt to the allied succession States, and thereby penalised the enemy State, Hungary. Taken in itself, each of these local injustices was neither flagrant nor deliberate; but the total mounts up to a large and indefensible injustice in the aggregate. Now that the distinction between ex-ally and ex-enemy has happily been dropped by common consent, the time might be considered ripe for reconsidering these two frontiers in a more objective and conciliatory spirit than could be conjured up a dozen years ago. If the attempt was made, it would be found that quite a lot of useful cheeseparing could be done which would restore many hundred thousand Magyars to their mother country without inflicting any comparable loss upon Czecho-Slovakia or Rumania.

Within the limits of an article like this it is clearly impossible to survey the possibilities of rectification in detail along these two frontiers, but the following instances will serve to show the sort of lines that it would follow. We must be content with giving one sample of a rectification that could be made, and one sample of a case in which the post-war frontier would almost certainly be left as it is. One obvious rectification along the Hungarian-Czecho-Slovak frontier would be the retrocession to Hungary by Czecho-Slovakia of the Grosse Schütt : an island between the main stream and a side-arm of the Danube which is inhabited exclusively by Magyars. The island was given to Czecho-Slovakia in the peace settlement in order to make the main stream the frontier ; but this is of no substantial advantage to Czecho-Slovakia since in any case both banks of the Danube are under Hungarian sovereignty a little lower down. The retrocession of the Grosse Schütt is evidently the sort of frontier rectification which could be carried out. On the other hand, it would surely be unjust to Czecho-Slovakia to ask her to retrocede to Hungary the river port of Bratislava which stands on the north or

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Czecho-Slovak bank of the Danube just above the point where the river divides to encircle the Grosse Schütt; for this river port is not only vital to Czecho-Slovakia's economic wellbeing, it has actually been created, since the peace settlement, by Czecho-Slovak enterprise with Czecho-Slovak capital to serve essential Czecho-Slovak purposes. This is a case in which the *de facto* situation since the peace settlement has genuinely changed in harmony with the new political map. Even if the pre-war Hungarian town of Poszony had been inhabited by Magyars, there would be no case for retrocession here, since the pre-war population of the place has been peacefully and legitimately swamped by the post-war influx of Czechs and Slovaks into the new Czecho-Slovak river port of Bratislava. As a matter of fact, this post-war Bratislava was only pre-war Poszony in name, for that Magyar name masked the identity of the historic German town of Pressburg. The real fact is that a mediæval German city of Pressburg under Hungarian rule has been transformed into a modern Czecho-Slovak river port of Bratislava under Czecho-Slovak rule. It will be seen that the case for the retention of Bratislava by Czecho-Slovakia is quite as strong as the case for the recovery of the Grosse Schütt by Hungary.

A fortiori, for the analogy brings us back to the Polish arguments with regard to the corridor, Poland would seem to have a strong case for retaining the sovereignty over the new seaport of Gdynia which she has built and equipped—literally out of nothing—on the short stretch of Baltic coast which was assigned to Poland in the peace settlement. For this seaboard, between the main body of Germany and the free State of Danzig, on which the Polish port of Gdynia stands to-day, is inhabited by a Polish population, and a continuous belt of territory mainly, it is pointed out, inhabited by Poles, stretches away from Gdynia into the interior of Poland in that corridor, under Polish sovereignty, which now intervenes between the main body of Germany and East Prussia. In this statement of the Polish

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case for the retention of Gdynia we have gone to the heart of the Polish corridor problem : the sorest, and at the same time the most difficult to heal, of all the sore places on the post-war political map of Europe. The problem is indeed the most intractable of those which have arisen out of the peace settlement. Nowhere else is national pride involved on both sides to the same extent, and the parties to the dispute are both great nations. One of them, Poland, is fully armed and has powerful friends, the other, Germany, is potentially a first-class military Power. Neither side has shown the smallest sign of any disposition to compromise with regard to their respective claims.

The Polish claim has its roots in history. The history of the corridor question goes back indeed to the thirteenth century of the Christian era, when the Polish principalities in the future corridor, Cujvia and Masovia, were—and had already been for two hundred years—an integral part of western Christendom like the German countries to the west of them, while Prussia, east of the corridor, was still a pagan country beyond the pale. A Christian Polish prince called in the German crusading order of the Teutonic Knights to extirpate the heathen Prussians (who were neither Poles nor Germans, but Lithuanians). The knights succeeded in the enterprise, and filled up the conquered and depopulated Prussian territory, on the far side of Poland, with Christian German settlers. Thereafter the Teutonic Knights sought (as the Germans are seeking now for the third time) to link up this new outlying German colony beyond Poland with the main body of Germany by annexing the Polish territory that now intervened, no longer between a Germany and a Lithuanian Prussia, but between a Germany and a Prussia which had become a German enclave. But the Teutonic Knights did not succeed in dealing with their relatively civilised Polish fellow-Christians as they had dealt with the primitive Prussian heathen ; and their struggle with the Poles ended, after nearly two centuries, in the political recovery of the Polish corridor by the Poles,

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who had also continued, even under German rule, to occupy the soil. The Polish corridor, it is pointed out, was Polish in sovereignty, as well as in population, from 1466 to 1772, and it remained mainly Polish in population when it fell under German sovereignty for the second time between the first partition of Poland in 1772 and the peace settlement of 1919-20, though the German population increased under German rule. To-day the corridor is Polish in sovereignty as well as mainly Polish in population again. In the light of this history, an attempt to solve this problem by simply replacing the Polish population of the corridor under German rule would, it is argued with undeniable force, be unjust. The very word "corridor," the Poles assert, gives an undue impression of narrowness; that access to the sea, both by rail and by the Vistula, is vital to them, for nearly 70 per cent. of their trade now goes by sea. If it had to go through Germany it would, they say, mean domination by Germany again, and a German Danzig would block the Vistula and threaten their railway communication with Gdynia.

The German contention is as follows: The country occupied by the corridor has been part of Germany for nearly 150 years, and this—the period of progress and invention—should count for more than all the centuries of stagnation that went before. They claim to have made the country by the improvements they introduced during this period, and anyhow, they say, the fact that they were the last holders, and holders for so long a period, is a vital point in their favour. They remind us that the transfer to Poland has cut in two the proudest part of their country. It cut, moreover, right across the old east and west communications and played havoc with them. There is through passage for certain purposes, but facilities are not what they were, and, whatever the Poles may say, they are still very unsatisfactory. Merchandise and goods that used to come by the old routes across East Prussia are now all taken round by the corridor. Everything is passed through that neck, the old markets are disorganised, and East Prussia has lost

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her natural hinterland. Her inhabitants no longer even have the access they used to enjoy to the right bank of the Vistula, for though it forms the real frontier of the corridor proper, a narrow strip along the right bank was given to Poland, and the inhabitants of East Prussia can only get to the river at one single point. As for the population argument, the Germans say that, if the corridor is overwhelmingly Polish to-day, that is because the Poles have made it so—it is their policy to make sure that it shall be as little German as possible.

It is only fair to say that in this the Poles have taken a leaf out of the German book. Before the war, a systematic effort was made to plant German Poland with German colonies. The Germans further say that the Slav population includes a substantial number of Kaschubs who are not Poles at all. Danzig is a German city, and Gdynia was, they say, deliberately established to steal the Danzig trade, and to make the Polish claim to the corridor impregnable.*

Such are the rival contentions. We have already disclaimed any intention of attempting to put forward solutions for these problems. One suggestion we have seen, in so far as the corridor is concerned, is that some sort of two-way corridor should be established, in which both parties would have equal rights and facilities for communication. Danzig would presumably be free to go back to Germany and Poland would retain Gdynia.

It is clear that the Polish corridor problem is the most difficult of the territorial arrangements which may be brought up for reconsideration. And to add to its complexities, there is to be a general election in Danzig on May 28. A Nazi victory—and Nazism, as recent events have shown, has spread to Danzig just as it has over the

* The population of Danzig is 407,567; roughly 95 per cent. are Germans. Satisfactory statistics of the population of the corridor at different times are hard to find. They should accurately reflect the policy of encouraging its own settlers and discouraging members of the other race pursued by each country in turn. Such figures as are available are appended.

To get to the river for farm purposes passports are everywhere necessary.

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Bohemian frontier—would undermine the position of the present régime.*

So much for the corridor and Danzig, but there is another problem equally dangerous and complex—that of the *Anschluss*, the union of Germany and Austria, which is the declared object of the Nazis in both countries. It is not, strictly speaking, a question of territorial revision at all; but no description of revision problems would be complete without some account of it, and it is closely bound up with one of them. A union between Germany and Austria can only take place under the Peace Treaties with the consent of the Council of the League of Nations, and the *Anschluss* problem will at this moment necessarily be much in the minds of the negotiating Powers, though it does not follow that it will figure on their agenda. The union would, it is claimed, in no way infringe the principle of national self-determination—the Germans and Austrians are members of the same race, and the Holy Roman Empire and the German Confederation both included Austria. From the economic standpoint, too, the union has much to recommend it; but there are grave political obstacles to its consummation. For easily intelligible reasons, a united Austria-Germany has always been the *bête noire* of many other nations and is now more so than ever since the Nazi revolution in Germany. Czecho-Slovakia, for instance, would be ringed in by potential enemies on every side, except on her Polish border and the short strip of her Rumanian frontier, if the union should take place—the very suggestion of a revision conference has been enough to make the Little Entente close up its ranks in alarm. Italy, too, is deeply concerned. Mussolini, of recent years, has been found in so many controversies on the side of the ex-enemy Powers, that it has sometimes been assumed that he would assist Germany and Austria to unite, in return, it might be, for support for his plans in south-

* Danzig is a self-governing free city under a High Commissioner appointed by the League of Nations. It forms a small enclave in the extreme north-east of the corridor.

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eastern Europe. But there is another aspect of the matter. Could Italy regard with equanimity a change that would create a greater Germany, and bring its frontier right up to her Tyrolean border, to the scene of perhaps the most questionable of the territorial alterations effected by the Peace Treaties which, in order to give her the frontier she required, handed over to her three-quarters of a million of unwilling Tyrolean Germans? Recent events, moreover, have changed the outlook. Italy has to consider what her line would be if it came to war again in Europe.

But, whatever the attitude of the Powers to this question, an effort might be made to take it out of their hands. Naziism, like communism, takes no heed of national frontiers anywhere where it can find German minds to work upon. The present Government of Austria is making a gallant stand to preserve its independent existence, but a Nazi *Putsch*—with help from over the border—might bring Austria as much under the control of Berlin as outer Mongolia is under that of Moscow. It is claimed that one-third of Austria is Nazi to-day. There need be no infringement of the Treaties, for Austria might still nominally remain a separate State, but the union would be none the less effective on that account, and it would mean control of the machinery of government, not merely personal allegiance as in the case of the Bohemian Nazis. For the Nazi party is one and indivisible, and it would, after a successful *Putsch*, itself constitute the State in both countries, recognising a single chief, Herr Hitler.

Lastly, there are the colonies.* The Germans have always indignantly repudiated the aspersion cast on their methods by M. Clemenceau's letter covering the peace terms. They demand overseas outlets for their people and sources from which they can obtain their own raw materials. Agitation has tended to concentrate especially on Tanganyika. The strongest objections made to the German demand

* A list of the German colonies and the countries entrusted with mandates is set out in the appendix.

Appendix

are not imperialistic. They are based on the interests of the indigenous population, and they take the following form. Is it fair, after thirteen years, once again to hand over millions of natives from one Power to another, especially to one with the aggressive militarist ideas of Nazi Germany? As things are at present, there would at least be a prospect of keeping Africa out of the maelstrom, if unhappily another war should come. Could that be expected with Germany back in Africa to-day? Is it indeed conceivable that Nazi Germany would submit to mandate conditions even in time of peace?

APPENDIX

I. POPULATION OF THE POLISH CORRIDOR AT VARIOUS TIMES.

(previously West Prussia) excluding Danzig

Authority	Date	Nationality	Numbers
German Census..	1910	Poles	439,014
		Germans	421,033
		Kaschubs	113,719
		Bi-lingual	15,702
		Miscellaneous	677
		Total	<u>990,145</u>
Polish Census ..	1921	Poles	754,907
		Germans	184,588
		Total	<u>939,495</u>
German version of figures	1921	Poles	438,769
		Germans	418,107
		Kaschubs	87,847
		Total	<u>944,723</u>
Polish Census ..	1931	Poles	976,563
		Germans	109,686
		Total	<u>1,086,249</u>

A German estimate in 1927 put the German population of the Corridor at 110,000. The population of Danzig to-day is 407,567. The composition roughly is, Germans, 95 per cent.; Poles, 3½ per cent.; other nationalities, 1½ per cent.

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II. GERMAN COLONIES AND COUNTRIES TO WHICH THEY WERE ASSIGNED UNDER MANDATE

Colony	Mandatory Power
Togoland and Cameroons ..	France and Great Britain. The larger parts of these territories were allocated to France.
German East Africa (now known as Tanganyika)	Great Britain
German South-West Africa ..	The Union of South Africa
The German Samoan Islands ..	New Zealand
Nauru	British Empire. The Administration is vested in the Governments of Australia and New Zealand, together with the United Kingdom. The Australian Government was appointed to administer the island. Matters of major policy are referred to all three Governments.
The other German Pacific Possessions south of the Equator (excluding the German Samoan Islands and Nauru, and including German New Guinea) ..	Australia
German Islands north of the Equator	Japan
Ruanda and Urundi in the North West of German East Africa ..	Belgium

THE POOR WHITE IN SOUTH AFRICA

THE CARNEGIE COMMISSION REPORT

THE poor white has for many years been the skeleton in the cupboard of the European family in South Africa, and for nearly as many years one section of the family has been telling the other what should be done about it. As a rule, people too have been more ready to prescribe remedies for the evil than to inquire how and why the evil has come to be what it is.

A thorough investigation was made possible recently by the generosity of the Carnegie Corporation. The main function of the Commission, which was appointed in 1928, was one of fact-finding. It had to make a diagnosis of the problem of the "poor white" and it was only incidentally concerned with remedies. This was a wise provision, because in this way the Carnegie Commission's Report stands a chance of escaping the fate of other excellent reports which have been primarily concerned with the proposal of remedial measures, and failing to fit in conveniently with the policy of the party in power, have been pigeonholed. The country in such cases has lost what is generally the most valuable part of such reports, viz., the diagnosis or fact-finding work involved.

Though the Poor White Commission enjoyed the cordial co-operation of all government departments, it was not a government commission. The fact that it was an independent investigation, carried on in the spirit of scientific research, greatly enhances its value. Moreover, the Commission did not sit formally round a table receiving evidence in the usual way. It went out after the poor white and studied him in his natural habitat—on the farm, in the cities, on the diggings, on relief works, and in the poor white settlements under the church and the State Departments of Labour, Lands and Forestry.

We visited (so runs the report) the poor whites in their homes, we saw them at work or in idleness and listened to their stories of

The Poor White in South Africa

stress and vicissitude. Thus we collected hundreds of biographies and case histories, which we generally checked by interviewing the local minister, teacher, shopkeeper, attorney, doctor, policeman, etc. . . . This method necessitated our travelling continuously for over a year and covering about 30,000 miles, mostly by car.

Besides using this method of the personal interview the Commission sent elaborate questionnaires to various types of institutions, including fully half the schools in the Union. Standardised mental and scholastic tests were given to about 20,000 children, including over 3,000 poor whites, with a view to getting a more or less objective measure of the intelligence and educational level of the various sections of the population.

The form of the report is also to a certain extent unique in that it is published in five separate volumes,* wherein each member of the Commission has dealt with the problem from his own particular angle. Each volume, however, contains a summary of the joint findings of the whole Commission.

So much for the aim and method adopted. As regards the findings, one of the main points made by the Commission is that

The problem of the poor white should not be treated as an isolated phenomenon, but rather as the acute manifestation of influences and conditions generally prevalent in our social structure. . . .

* Vol. I. *Economic Report*: Rural Impoverishment and Rural Exodus (245 pp.), by Dr. J. F. W. Grosskopf, Professor of Agricultural Economics, University of Stellenbosch.

Vol. II. *Psychological Report*: The Poor White (206 pp.), by Dr. R. W. Wilcocks, Professor of Psychology, University of Stellenbosch.

Vol. III. *Educational Report*: Education and the Poor White (364 pp.), by Dr. E. G. Malherbe, Director, National Bureau of Education, Pretoria.

Vol. IV. *Health Report*: Health factors in the Poor White Problem (154 pp.), by Dr. W. A. Murray, Union Department of Public Health, Pretoria.

Vol. V. *Sociological Report*: (a) The Poor White and Society, by Rev. J. R. Albertyn; (b) The Mother and Daughter in the Poor Family, by Mrs. M. E. Rothmann, B.A. (217 pp.). (Published by the Pro Ecclesia Drukkery, Stellenbosch.)

The Evolution of the Poor White

Rather than calling poor whiteism a disease, it will probably be nearer the truth to speak of it as a *symptom* of a disease . . . which affects our whole social organism. . . . Any measures which succeed in toning up the health of the whole body politic, socially and economically, will in that same proportion diminish the symptom of poor whiteism.

Though for statistical purposes, e.g., when applying psychological and other tests, the Commission defined a poor white as "an impoverished white person of rural origin," and included under that category chiefly poor *bywoners* (tenants-at-will), hired men on farms, owners of dwarf holdings, or of small undivided shares of land, poor settlers and the growing group of unskilled or poorly trained labourers and workers outside farming, the investigators all emphasise the fact that the poor white is not a class apart in the "caste" sense.

Moreover, owing to the difficulty of defining precisely the term "poor white," the Commission did not make the poor white as such its chief object of study. Rather, it concentrated upon the study of the process which has produced poor whites in the past and is producing them in increasing numbers to-day.

I. THE EVOLUTION OF THE POOR WHITE

THE term "poor white" was written in inverted commas for the first time in 1892, indicating that in the early 'nineties people were already becoming conscious of the poor white as a problem. From about 1880 the discovery of diamonds and gold, the capitalistic exploitation of mines, the influx of immigrants with the modern business outlook and the rapid penetration of the country by railways forced the development of South Africa into new channels. From 1890 onwards the older white settled population was faced with entirely changed conditions. A rapid economic transition took place from the old patriarchal

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régime to the modern commercial and industrial order.

Economic conditions during the first two hundred years of South Africa bred the pioneer, or *voortrekker*, chiefly a pastoral type, with whom the main economic motive was the opening up and occupation of new land. This economic motive was at work as early as the latter half of the seventeenth century among the first generation of European settlers at the Cape. Influenced by certain non-economic factors, it worked at greater speed during the time of the Great Trek (1835-38), when the Transvaal, the Orange Free State and Natal were opened up, and it is still a driving force in some parts of the northern Transvaal. Land was plentiful in the early days, farms were large. The sons of farmers could either live comfortably on the same farm or go farther north to seek pastures new. There were hardly any obviously poor people in those days, and the few temperamentally shiftless or with low intelligence could always reckon on the hospitality of the farmers to provide them with a livelihood in return for odd jobs on the farm. Game was plentiful, and those who did not have cattle were never short of meat. The wealth of the farmer lay in his cattle and sheep. He was primarily a pastoralist. The little agriculture that he practised was merely for his own consumption. In this way the pioneer type was created. With his Bible as the only instrument of culture, with his gun to protect him against the savages and to shoot game, and with a plough as the instrument for breaking new land, he was perfectly adjusted to his environment. His life was simple, his needs few. He was religious, fairly honest, independent and rather self-satisfied.

This we may designate the patriarchal stage. With the increase of the population and a check to the possibilities of acquiring new land, this stage was bound to come to an end. The transition stage set in. Adjustments had to be made. Those with capital or education or intelligence

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above the average made the adjustments successfully. Those who lacked these advantages were soon adrift. The sub-division of farms (where some got less than a 1,000th part of the original farm) worked the undoing of their numerous descendants. On the one hand, farms were overstocked and the pastures ruined beyond redemption by erosion and other damage. On the other hand, there was the frequent intermarriage of near relations in order to keep the land in the family, and in many cases mental and physical deterioration resulted. Here, then, is an end to the desire for land and more land as the chief economic motive. Those who clung most tenaciously to the old tradition suffered most. The descendant of the voortrekker who failed to adapt himself to changed circumstances is now adrift, not knowing where to go. His little piece of land, inherited from his father, is too small. He mortgages it and loses it. He does not know a trade ; the education that once sufficed for his grandfather does not assist him in analysing the process of which he is the victim ; he can see no escape. He becomes a bywoner (or squatter) on another man's farm, and with the unsatisfactory and loose terms of leasehold obtaining under the bywoner system, has little hope of ever finding his feet again. Here, then, is one of the first links in the long chain of causes that have produced the poor white.

The transition was one also from a system of subsistence economy to one of cash economy. New times also demanded new methods of production in agriculture. When labour was plentiful, markets distant and the ox-wagon the only means of transport, the farmer's agriculture was sufficient only for his own needs. This tradition bred inefficient methods of farming, which, when tried later on for production on a large scale for marketing, have proved uneconomical. Here the bywoner is again the victim. The farmer desiring to put more land under cultivation finds that there is less room for bywoners than before, and tells some of them, usually the weakest, to go. Where now ? To the city ?

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No, not yet. He is still afraid of the strangeness of the city. Most people speak English in the city. He does not speak it very well. Neither does he know what to do in the city. All these things contribute towards creating in him a feeling of inferiority. He is diffident about going, and hovers around the countryside, flitting from farm to farm, until through some friend in the city he hears that work can be found there, and with that friend as his only sheet anchor he betakes himself to the city, where new, and often more difficult, adaptations are demanded of him.

But the farmer himself is also in danger. Owing to his ignorance of marketing principles, he sells his produce to the local storekeeper at a ridiculously low figure. The very qualities of independence and self-confidence which stood his ancestors in such good stead militate against him at a time when his only salvation lies in co-operation. He is puzzled by the new commercial methods. He suspects some form of *verneukery* (sharp practice), tries a little of it himself when he can, and generally comes off second best. On the whole he clings to his old methods. There he still feels fairly safe, but none the less he is marked for destruction by the same ruthless economic forces that have brought the bywoner to his farm.

Immigration, which brought in English and Jews who were more *au fait* with the new (commercial) methods, further complicates the situation for him, and he is left behind in the race. So precarious indeed is the economic footing of a large number of such farmers, that it only needs some movement of catastrophic nature, such as cattle disease, a drought, or a war—of which South Africa has had more than her due share in the past—or any other novel situation which needs rapid adjustment, to precipitate considerable numbers of them from the owner class into the bywoner class.

Such in broad outline has been the evolution of the poor white. He is recruited mainly from the older section of the European population, *i.e.*, those of Dutch-French-German

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extraction, and is to-day mainly *Afrikaans* (South African Dutch) speaking. This is no doubt due to the circumstance that until recent times about 80 per cent. of the rural population was Afrikaans speaking and the poor white problem is essentially an agrarian question. There is, however, a small admixture of English and Irish descent amongst the poor whites. The Commission mentions over 200 British family names among Afrikaans speaking poor whites, and does not claim that the list is exhaustive. Professor Macmillan in his recent book, *Complex South Africa*, also refers to the surprising number of poor whites, descendants of Englishmen, who have been absorbed in the Afrikaans speaking population. As one of the investigators puts it :—

It is not as if any of the two white races has a monopoly of the original sin. It is rather that, side by side, Britisher and Boer were caught in the same economic maelstrom, which is blind to the very arbitrary distinctions of nationality. Wherever they were slow in adapting themselves, they became victims of the same economic Nemesis, irrespective of language or creed or colour. I add the last word "colour," because, as I motored through the native areas and noticed the closely settled land and badly worked fields of the Kaffirs, the thought came to me that, in less than 50 years' time, the Carnegie Corporation will perhaps feel it incumbent upon them again to appoint a Research Committee, but this time to investigate the causes of the Poor Black Problem—a problem which may prove to be very black indeed, because I have not the least doubt that if things are allowed merely to drift, the natives will, if they are not already, be even worse victims of the same ruthless process.

The truth of this last point is borne out conclusively by the Native Economic Commission's Report.*

II. PECULIAR CONDITIONS

IT might be contended that other countries have passed through similar economic transitions and yet we do not hear of their having a poor white problem. The Com-

* See THE ROUND TABLE, No. 88, September 1932, p. 90c.

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mission meets this question by pointing out that there are certain conditions which are more or less peculiar to South Africa.

The first is the presence of the South African native. In the circumstance that the European population lives in close contact with an overwhelming black population is to be found the *raison d'être* of the very term, poor white. The only other country where a similar class name has been evolved is in those Southern States of America where the white population is in a minority.

Every country has its submerged tenth. Are the submerged 10 per cent. of the South African whites so much worse off economically than those of other European nations that on that account alone they constitute a serious economic problem? To this question the Commission confesses that it is unable to give an answer in the absence of comparative data. The educational investigator who was responsible for the estimate that there were between 300,000 and 400,000 very poor people out of a white population of 1,800,000, an estimate based on the study of 49,434 representative European families over the whole Union, makes the following observation in this connection :

Now it may be that, because we are a white race living in juxtaposition to native and coloured races, we have distorted ideas as to what constitutes poverty. We may, on account of aristocratic tendencies, be inclined to call a white man poor when we would not call a native, who lives under similar conditions, poor. The lowest economic condition ascribed in popular parlance to a white man is to say "he lives as a Kaffir." Further, what we call poor here in South Africa may not be considered poor in European countries. We do not know for certain. There is no absolute normal or objective scale of measurement. In any case the term "very poor" is circumscribed to mean something fairly definite for South Africa, viz., those who are dependent upon charity for a living, or eke out a miserable existence as by-owners on the farms. I do not think that it was generally realised that in fairly normal times (*i.e.*, before the beginning of 1930) *nearly one-fifth of the European families in South Africa lived in dire poverty*. In some parts of the country the conditions are much worse than in others. In the

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north-western Cape (Namaqualand, etc.) the proportion of "very poor" is 33·3 per cent. In the Oudtshoorn section of the Little Karroo, it is 31 per cent. The north-east Transvaal stands at 30 per cent. The northern Transvaal, if Pretoria town is excluded, stands just a little lower than this. On the other hand, the Rand, which is almost purely urban, stands at 11·5 per cent., and the Orange Free State (which includes Bloemfontein) and Natal (the bulk of whose population is urban) stand at the same level, round about 12 per cent.

It is pointed out that these calculations also include many who are not "poor whites" in the sense in which the term is defined above. The definition did not include the regular urban poor classes.

From the above two things are clear. In the first place the poor white obtrudes itself as a problem because of the presence of a majority of blacks living in competition with whites. In the second place, South Africa has a dual economic standard, one for the white man and one for the native.

While the fact that there is the underlying fear that the lower levels of the white population may sink economically below the upper levels and even the average of the native population, may account for the mere name, poor white, it cannot be proved that native competition as such has been in the past a potent direct cause of the actual impoverishment of rural Europeans. It may become a cause in the future, particularly on the unskilled level. But the fact remains that in the Cape coastal regions, and in the Little Karroo from Prince Albert to Jansenville, which may be called the cradle areas of the poor white, there have been hardly any natives.

On the other hand, indirectly, the contact with the native has certainly caused impoverishment. Inefficient methods of farming based on inefficient labour have been perpetuated and the lack of industrious habits has been partly due to a prejudice against certain types of manual labour which are designated as "Kaffir work."

This attitude affects all levels of society, as is

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shown by the following quotation from the Educational Report :—

It is often said that the poor white is lazy. Yes, he is, but he is lazy for the same reasons that many a well-to-do man is lazy. *It is the absence of a specific stimulus to work and to work hard.* If he can have the work done while he looks on, why should he worry ? A couple of poor whites were earning 6s. each a day on relief work on a remote road. They hired a couple of natives to do the work at 3s. each per day while they (the white men) lazed about sleeping in the shade behind a bush. The natives were content with the wages. The work was done. The white men "earned" 3s. each per day. Why should they worry ? It was good business !

The prosperous business man, who sits at his office desk and rings the bell for Jim Fish, who is working in the yard, to bring him his spectacles which lie just a little beyond his reach on the desk, and his wife, who while sewing drops her thimble, and halloes in shrill tones for the little picannin on the other side of the house to come and pick it up at her feet, are lazy in exactly the same way as the poor white, whom they despise as an indolent scoundrel, is lazy. In one of the recent public examinations in Natal, a schoolboy in a science paper was asked in a question on the principles of the lever to show how he would make use of a crowbar to move a rock on the roadside. After explaining how he would adjust the fulcrum so as to get an adequate leverage, he added, "and then I would get a native at the other end of the bar to lift the rock." These illustrations are symptomatic of the energy-sapping process that is going on amongst all classes of our white society, due to the fact that we are a white aristocracy on a big black foundation of natives. In many cases the native stands, as it were, between the white man and manual labour.

This, of course, was always more the case in the northern and eastern parts of South Africa, where the natives are more numerous than in the southern parts.

An excellent analysis of the origin of this attitude and of the way in which it is rapidly dying out under the pressure of economic competition is made in the Psychological Report.

Regarding restriction of certain work to Europeans the report says that :

A policy of protection by reservation of work to the European should be treated as merely a measure of transition for a period

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during which the poor white is given the opportunity to adapt himself to new conditions in South Africa. It will be disastrous for the poor white himself if any protection given him is of such a nature that it results finally in impairing his ability to compete with the non-European on the labour market. With a view to the welfare of the poor white the period of protection should be made one during which they are trained to greater efficiency than they often have now, and during which their children are trained to become good and, as far as possible, skilled workers.

If protection takes the form of reserving unskilled or semi-skilled work to the European it is necessary either that (i) wages be paid on a piece-work basis or that (ii) steps be taken to ensure sufficient competition between Europeans themselves, and that continued employment be made dependent on good performance.

If the unskilled or semi-skilled European and non-European labourer compete with each other, *such competition ought, as far as possible, to take place at minimum wages fixed for both on the basis of a reasonable "white" wage.* In so doing the result will depend on how they compare with each other in performances, and not on difference of standard of living. The latter makes the position practically untenable for the European from the very beginning.

This second form of protection would not only serve to raise the standard of living of the non-European, but is, in our opinion, much more likely to remain in force and is thus calculated to serve the interests of the poor white best in the long run.

Practical experience seems to show that even with unskilled work the average poor white is a better labourer than the average native if the European is placed under sympathetic supervision and is given an incentive to improve his performance (*e.g.*, by payment according to piece work).

Besides the presence of the native there are other circumstances which have made the economic and social development of the rural population in South Africa somewhat different from that in other countries. The system of inheritance prevailing amongst the Dutch speaking population to which reference has already been made, has bred thousands of poor whites on the land. The excellent report of the Transvaal Indigency Commission of 1906, of which the present Lord Lothian (then Mr. Philip Kerr) was the principal author, rightly made much of this tradition as a cause of poor whiteism.

It was largely because of the absence of this tradition

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amongst the English settlers of 1820 that they escaped the Nemesis which has overtaken the older Afrikaans speaking population of the land. Theirs was an artisan tradition rather than a pastoral one. English boys sought other occupations in industry and commerce and did not, as their Afrikaans speaking neighbours did, remain sitting on the land with their eyes glued to the little bit of it they were to inherit. The influence of isolation and distance can hardly be over-emphasised in this connection.

Droughts, plagues, and events of a catastrophic nature are often named as causes of poor whiteism. According to the report they never were primary causes, but rather aggravating circumstances which put the final touches to a process that was already destroying the people. And then, too, the subdivision and subsequent overstocking of farms led to what has justly been called "man-made-droughts." The influence of malaria and climate in producing economic deterioration has, according to the Health and Educational Reports, been exaggerated in the past, though there seems no getting away from the fact that malnutrition is a very potent factor in bringing about a gradual weakening of the physical stamina of the rural poor.

Closely connected with the above tradition is the fact that South Africa did not have industries to absorb the redundant rural population such as the older European countries, and even America and some of the Dominions, had. It is only in recent years that the rural Afrikaner has found his way into the two main industries of South Africa, mining and the railways. Farming here is an intensely difficult proposition demanding a high degree of what may be called adaptive or directive intelligence. It is the lack of exactly this quality that leads to the undoing of many men on the land—men who, on a routine job in a factory, where little directive intelligence is required, would become useful and successful workers. The psychological tests showed clearly that the poor white deviates less

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from the normal in purely mechanical ability than he does in those higher mental processes which require reasoning.

III. A POSSIBLE REMEDY

THE above are only a few of the main points brought out by this valuable report. It is practically impossible within the compass of a single article to summarise the 1,200 odd pages closely packed with information and interesting discussions. There is much in the report which may make one pessimistic about the future, e.g., the increasing spirit of dependence of the people on State and charitable support. It is specially noticeable amongst that rural section of the population which until a short time ago always boasted of its independence. The dangers of the future lying in the fact that the poorer section, which has become the parasitic part of the population, is multiplying more than twice as fast as the smaller and more intelligent section which have to carry the former on their backs, as it were, are clearly illustrated by interesting figures on differential fertility and by the discussion on the question of birth-control. The abuse of the vote and political pressure which prevent the adoption of salutary measures are frankly discussed by all the members of the Commission. The report states :

Serious dangers are attached to attempts to improve the economic position of the poor white by the shortest possible way for him in such a manner as to lessen the urge of self-help. . . .

It is a radical mistake for the State, in its attempts to save those classes that are falling behind because of their clinging to primitive and inefficient farming methods, to keep on offering financial assistance every time that distress becomes pressing. It would be hard to find a method more apt to perpetuate an obsolete tradition—and thus to ensure constant repetition of the need for help.

The chief point in the sociologist's report is that there must come a shifting of emphasis from mere relief to service. All methods arriving at the rehabilitation of the

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poor white must in the first instance be educative, otherwise they defeat their own ends.

Interesting facts are advanced in the Psychological and Educational Reports with regard to the educability of the poor white. These are distinctly encouraging and may remove the pessimism which other facts tend to inspire. The average intelligence quotient of the poor white is about 96. That is less below normal than has been imagined. The bulk of the poor whites fall within the range of normal intelligence, and one-third of them are above the average for the whole country.

The cumulative effects of poverty and scanty education have had much to do with their inferior intellectual position. The solution lies to a large extent in education in the broad sense of the term—an education which will continue beyond mere schooling and, by means of extension work like that done by the Department of Agriculture in a small way to-day, will not only help the people to control their environment more effectively, but will compensate them for the limitations imposed on them by their occupations and isolation. The possibilities of adult training which recent studies have revealed, the improved facilities in the way of education, which include libraries for rural areas and broadcasting, have led the investigators to conclude their survey in a hopeful tone.

Old-fashioned education has been shown to be an inadequate prophylaxis. It has failed to help rural South Africa to weather a difficult economic transition. But education, which trains people in the knowledge and skill necessary for economic adjustment, and is above all directed towards the correction of wrong mental attitudes inherent in their *mores*, may be the chief means of saving white South Africa from being drawn under by an ever-increasing section whose cry is fast becoming that of decadent Rome : *Panem et Circenses*.

South Africa.

April 1933.

GREAT BRITAIN

EARLY in the year, Mr. Neville Chamberlain made a pronouncement in the House of Commons which will go down in the history of this Parliament as the "pegging away speech." "To-day," he said, "we have to keep pegging away if we are to succeed in bringing about trade recovery." It remains the keynote of the whole Government policy. They will not be tempted by short cuts; they tend to regard any alteration from the course they determined upon at the beginning of the Parliament as "hysterical and panicky" and they will have none of it.

I. THE BUDGET

IT is in this light that the budget must be judged. Certainly the figures of revenue and expenditure must have made unattractive reading for Mr. Chamberlain. Last year's revenue fell short of the estimates by approximately £22 million, and expenditure exceeded the estimates by £11 million, and there was a payment of £29 million to the United States. These items total £62 million. Thus there was a net deficiency of £33 million, which had the result of creating a deficit of £32,200,000. Mr. Chamberlain regarded the payment to America as an exceptional expense, and thus narrowed the real deficit down to £3,300,000. For next year he again refused to budget for the American debt. On the existing basis of taxation he estimated the total revenue, including the Post Office and the Road Fund, at £796,269,000. His estimated expenditure was £781,025,000. Thus he had a prospective surplus of £15,244,000, allowing nothing for the Sinking Fund, which he has decided to suspend. Minor tax changes increased the prospective surplus to £17,291,000. A further windfall was added by taking the £10,000,000 from the old 5 per cent. war loan depreciation fund, which was no

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longer needed. With this surplus he proceeded to a reduction of the beer duty, which cost £14 million, and to restore the system of paying income tax in two equal instalments, which cost £12 million. Thus there was a final prospective surplus of £1,291,000. Such a budget arouses neither enthusiasm nor indignation. It was, as Sir Herbert Samuel described it, "a pedestrian budget." Mr. Neville Chamberlain would not quarrel with that definition. That was what the budget was meant to be.

The Chancellor was faced with the alternative either of producing what has been called a gambler's budget or a grim budget. He had his choice between the Keynes view and the Treasury view of sound finance. The Keynes view has been brilliantly expressed in a series of articles in *The Times*. Briefly it is that the best way to balance the budget is to unbalance it. The argument is that lower taxes, by stimulating trade, would, in the long run, produce more revenue. To give this policy time to bear fruit, it is further suggested that the national finances should be balanced, not for a period of one year as at present, but for a period of three years. Against this radical departure were ranged the hosts of orthodoxy. It was argued that such a course would lead to the revival of all the old fears about the stability of the pound. A balanced budget was the only effective barrier against a flight from the pound. It was asked what guarantee there would be that relief of taxation would result in relief of unemployment. Unless real confidence was restored, the money released might merely take flight, not into reproductive employment, but into the strongrooms of the banks. The psychological effect on the United States had also to be taken into account. It would be increasingly difficult to get Congress to release Great Britain from her debt if it became known that her finances were already restored to such a sound condition that she could afford to embark on sweeping reductions of her income tax. Anyhow, the arguments of the orthodox prevailed with the Chancellor, and the present

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humdrum budget has been the result. It is certainly consistent with the Government's whole record—of eschewing the spectacular.

As such it has received a great measure of support among the mass of Government supporters. They recall that their main appeal at the election was for a balanced budget and that any radical departure from that principle would be to betray their own pledges. Indeed, there is a strong inclination to think that the hard thing is right primarily because it is hard. The indecisive attitude of Mr. Chamberlain on the taxation of the co-operative societies has exasperated a great number of members. They urge that if it is just to tax the co-operative societies, then the Government ought to do so and "damn the consequences." But is it just? The crux of the question concerns trading with members. The Raeburn committee appointed to enquire last year into the whole question accepted the argument that the dividend is only a returned overcharge and recommended that it should not be taxed. The question is whether the same argument does not apply to the reserves. It is contended that they are as much the property of individual members as the dividend, the difference being that the one is distributed and the other is undistributed income. The opinion of the mass of Conservative members, stimulated by the private traders who regard the co-operative societies as in a privileged position, will be in favour of their further taxation. There will also be keen criticism of the high duties on heavy motor vehicles which follow on the recommendations of the Salter Report, though they are not so high as was suggested in the report.* In one case the duty leaps from £60 to £300. On the whole, the budget raises no great issue of principle in the ranks of the Government supporters, and should have a comparatively easy passage.

The official Opposition, as is the way of Oppositions, opposes. Their main contention is that it contains no

* A reference to the Road and Traffic Bill will be found on a later page.

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benefits for the unemployed. "The fundamental cause of bad trade, unemployment and poverty," said Mr. Lansbury, after the Chancellor had sat down, "is that no Government had faced the fact that production outstripped consumption and the only problem to be solved was how to bring an increased consumption of the goods produced. Until they got down to that, all this business of budget balancing was beside the point." Sir Stafford Cripps, who is rapidly becoming the most formidable controversialist in the Socialist ranks, used it as a text for an attack on capitalism. "The system of trying to revivify private enterprise," he argued, "by allowing it to accumulate large private funds was not functioning because at the other end the people had not the opportunity to increase their consuming power."

So far as this budget was concerned, the Chancellor of the Exchequer had clearly pinned his faith on revitalising industry by the building up of the profit fund. The Opposition, on the other hand, believes that the profit fund should be eliminated altogether and that the State should take over the control of the means of production and thereby the organisation of the expenditure of the country, and in that way they could force into circulation money and credit at present lying idle and unused.

Sir Herbert Samuel for the Liberal party launched an attack so severe that many thought it must be the prelude to leading it into opposition. His main contention was that the budget was a smashing illustration of the failure of protection. "This was what the country had said at the general election—we cannot bear this enormous burden of taxation, we cannot carry this immense amount of unemployment. That was a year and a half ago. A majority of the Cabinet chose their course. We (Liberals) dissented and we resigned. The Government pursued its policy; it has produced its results. Unemployment is increased, taxation is undiminished. That is the picture presented by the present Government."

The Trade Agreements

II. THE TRADE AGREEMENTS

FURTHER evidence of "the pegging away" policy appears in the trade agreements concluded with the Argentine, Germany and Denmark, and there are two more agreements with Norway and Sweden to follow. Great emphasis has been laid, both at the election and since, on the fact that tariffs are not merely being employed for the purpose of reducing imports, but that they are, in the words of Mr. Baldwin's election address, "the quickest and most effective weapon to induce other countries to lower their tariff walls." The pledge was repeated in the debate on the Import Duties Bill, and the moment that the Ottawa Agreement was concluded, negotiations were opened with foreign countries for greater reciprocal trade by a mutual reduction of tariffs. The results have now been laid on the table of the House of Commons.

The agreements can be summarised briefly. The main point of the Anglo-German agreement, which is of a limited character, is that the British coal quota taken by Germany shall in no case be less than 180,000 tons a month and that it shall increase in proportion to the consumption of coal in Germany.* These concessions by Germany are conditional on Great Britain agreeing to reductions of tariffs on a variety of articles such as toys, gramophones, jewellery, safety razor blades and many other secondary manufactures. The Government calculated that the agreement would result in the employment of 3,800 British miners, as against, say, 1,800 persons adversely affected by the reduction of the British duties involved.

The agreement with the Danes is wider in its operation. Its main feature is the recognition by Denmark that the balance of trade between the two countries is heavily in her

* This quota in October, 1931, had been 300,000 tons, but it was lowered gradually to 100,000 tons. Bunker and Free Port coal, about a million tons a year, are extra, and left free from trammels.

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favour and her promise to redress that position. She agrees to admit free of duty a wide range of British goods, machinery, coal, coke, iron and steel, tinplates, galvanised sheets, jute cloths and the like. She agrees to take from Great Britain 80 per cent. of her total coal imports,* and is to make every effort to maintain the market for British coke. She is to reduce her tariffs on other classes of British exports, including printed cotton piece goods, not to increase her tariffs on "a very wide range of goods," including all cotton and woollen piece goods other than those covered by the reductions just mentioned. She is, moreover, to buy from Great Britain all the jute, salt, saltpetre and wrapping paper required for the export to us of bacon, hams and butter. It is further announced that the Danish Government is to undertake "a course of action," as a result of which it is hoped that Great Britain's export of iron and steel to Denmark will be doubled. An order for the construction of the Storstrom bridge, which will be one of the finest in Europe, has already been placed in this country.

Great Britain on her part agrees not to regulate the quantity of Danish bacon, hams, butter, eggs, or cream except in so far as it may be necessary for the effective operation of domestic marketing schemes. There follow clauses which specify the minimum that she agrees to take. In the case of bacon, which is easily the most important of the Danish exports, it is not less than 62 per cent. of the total permitted imports from foreign countries. In butter the Danish allocation is not to be less than 2,300,000 cwt. in any year. The agreement is to last for three years.

Next we come to the Argentine agreement. The question of amending the Argentine general tariff is still under discussion. The Argentine delegates are agreeable, "so far as the fiscal situation and the interests of national industries permit," to lowering, for all nations alike, the

* An increase of about 1,300,000 tons on the 1931, and of about 780,000 on the 1932 comparison.

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present duties on goods, a substantial part of which, especially certain cotton goods, come from the United Kingdom, to the old 1930 scale, and no new or increased duties are to be levied, which means that our coal will still be admitted free. We too agree to impose no new or increased duties, or quantitative restrictions, on certain goods. The convention may, however, be denounced if a supplementary agreement with regard to tariffs is not come to by August 1 next.

So far as this country is concerned, the most important advantage thus far gained has been a financial one. The convention provides, subject to the Argentine Government being allowed to deduct a reasonable amount towards payment of its public debt services generally, for the unfreezing of debenture interest and remittances, to the amount of some £10 million due in respect of British investments in the Argentine. As a result of the exchange restrictions, a good deal of trade has been blocked in this way. The Argentine on its side is to be free to send us as much chilled beef (99 per cent. of Argentine chilled beef depends on the British market) as it sent us in the corresponding quarter of the year ending June 30, 1932, unless restriction is necessary to keep the price at a remunerative level, in which case the quota may, provided that the gap is not filled by other kinds of meat, be reduced by a further 10 per cent. But any further reduction will not be made unless it is to be shared by the Dominion supplies. No restrictions are to be imposed upon our imports of foreign frozen meat, except those agreed to at Ottawa, unless a restriction of the supplies from the Dominions should be arranged, in which case the Argentine is to be fairly treated. Its frozen meat is of far less importance than its chilled. It was calculated by the Government that, by June, 1934, one-third of the former Argentine supply will be supplied from the Dominions and this country. The underlying principle of the arrangement is the home supply first, next the Dominions,

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then the Argentine. The convention, if not denounced by August 1, is to be for three years.

These agreements have been attacked by a section of the Conservative party with a ferocity hardly equalled even on the Government's Indian policy. The attack began with the German agreement and was led by no less a parliamentary figure than Sir Austen Chamberlain. His main argument was that, for limited and problematical gains to the coal industry, we were risking serious loss to the small industries now beginning to sprout under the shelter of the new tariffs. The particular industry that concerned his constituency was jewellery, and his speech opened the way for member after member rising to state the case of specialised constituency interests. A debate that was expected to run an hour or two at most lasted all day and ended in more than 50 Conservatives going into the lobby against the Government and three times that number of abstentions. The general attitude of the Liberal and Labour parties was that, miserable though the gains were that the Government's use of the bargaining weapon had produced, they were better than nothing. The agreements were in the direction of freer trade and as such ought to be supported. This approval from free traders only exasperated the ultra-protectionists further, and when Mr. Runciman bluntly stated, in the course of his reply, that if they did not like the way he had negotiated the treaties they must get somebody else to do it, there were some cries of "we will." Lord Beaverbrook is leading the attack in the country and the *Daily Express* every morning exposes the iniquity of what it has christened "the Black Pacts."

It is unfortunate that the attack should coincide with the return of the Prime Minister from Washington. Mr. Roosevelt has gone so far as to propose a tariff truce, but the difficulties of striking a bargain are enormously increased if every reduction in tariffs is to be the subject of relentless hostility stage by stage from the interests concerned. Indeed such an attitude would imperil the future success

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of the Economic Conference. For obviously there cannot be effective tariff reductions unless they are mutual. It is no good talking of a truce if only one side proposes to end hostilities. But a fear has been expressed from a different angle that such bilateral agreements at this stage may themselves prejudice the prospects of the Conference. The Americans, it is said too, may resent the Argentine convention, and Germany and Poland, who stand to lose by our coal arrangement with Denmark, may retaliate upon her and weaken her buying power.

So far the Prime Minister has only given the most general account of his visit to Washington. In the course of a short statement in the House of Commons he said that his conversations with President Roosevelt on tariffs, quotas, exchange control and currency stability had yielded encouraging results. On the subjects of war debts differences of view have been usefully defined. There was one sentence which gave some alarm to the free traders. It was to the effect that in answer to the tariff truce proposal of Mr. Roosevelt he had pointed out the difference between the position of a country like Great Britain which had a low tariff and that of other countries which had the most elaborate network of economic defences. He made it clear that the application of any truce would be subject to the safeguards which this difference made necessary. This is regarded in some quarters as indicating that the pressure of the protectionists has not been without its effect and that the Government are unwilling to take the lead in tariff disarmament at the Economic Conference. Searching questions will also be asked about the Government's policy and plans for the Conference. There is a feeling by no means confined to the Opposition that the Government are not sufficiently prepared to direct events.

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III. THE HOME FRONT

BUT though the main attack of the Government on unemployment has been international, they have not been idle on the home front. They have foreshadowed important legislation on the vital subject of rate relief. Responsibility both administrative and financial has been accepted for the able-bodied unemployed who are now largely a local concern. This step will necessitate a re-adjustment of the block grant and the opportunity will be seized to make some special allowance to the necessitous areas. The announcement follows a long agitation conducted quite as strenuously by the Government cohorts as by the members of the Opposition. It has been realised by all who are in intimate touch with the worst unemployment belt, that one of the main obstacles in the way even of the smallest measure of trade recovery is the burden of the rates. They frighten away any manufacturer looking for a new site for a factory. Thus where the plight of the population is most desperate the chances of rescue are the most dismal. There is also the more elementary question of the decreasing capacity of these areas to raise the necessary rate at all. Some towns which are dependent on one industry alone, like coal, have been faced literally with bankruptcy. This admission by the Government therefore that unemployment was a national rather than a local responsibility was more widely welcomed than any measure that they have yet produced.

The Road and Rail Traffic Bill, which is an attempt to place the two vital forms of transport on an equal competitive basis, has received a second reading with less opposition than was at first expected. Only the Socialists voted against it because it was not socialism. The main Conservative opposition was concentrated in the argument that, as Sir Arthur Steel Maitland put it, "the charges

The Home Front

imposed by the Bill, coupled with the increased taxation imposed in the budget, would raise the cost and impair the efficiency of transport generally, and thus add to the cost of living at home and to the competitive handicaps of British industry abroad." The Bill has been sent to a Standing Committee, where it is likely to have some rough handling from the interests that are affected. But the general view is that the railways are, in existing conditions, operated under a disadvantage and that the removal of restrictions, out of date now that the railways no longer hold a monopoly, and the enforcement on the owners of road vehicles of a higher standard of safety and service will do something to stop the rot in the catastrophic fall in railroad receipts.

The position of the iron and steel trade continues to cause the Government anxiety. The committee appointed as the price of tariffs to draft a scheme of industrial re-organisation has now reported in favour of control of the industry through a central body co-ordinating subsidiary associations appointed to deal with each separate productive branch, which shall be called the Iron and Steel Corporation of Great Britain. Mr. Neville Chamberlain in a letter to the chairman of the Import Duties Advisory Committee welcomes the proposal but adds, "you will, however, recognise that only the first stage has been reached and that much remains to be done before the industry can be said to be properly organised." The letter ends with the hint that the Government, while infinitely preferring re-organisation on a voluntary basis, reserve the right to take, if necessary, compulsory powers.

Now that the Housing Bill is through the House of Commons the clearing of the slums is also for the time being a question rather of administration than of legislation. In this connection the Government have issued an important circular declaring that the present rate of progress in slum clearance is too slow, and calling for a concerted effort between the central government and the local authorities. The Minister of Health has asked to see "not later in

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any event than September 30 next a copy of the programme adopted by the local authority." During the last fifteen years slum clearance has only been effected at the rate of a thousand houses a year and this recognition by the Government of the necessity of increased driving force from White-hall has given great satisfaction. Its bearing on unemployment is also obvious, for the percentage of the unemployed in the building trade is one of the most lamentable features of the monthly trade returns.

Another weapon for grappling with the crisis that might legitimately come under the head of administration is the Exchange Equalisation Account which is maintained by the Treasury to stabilise the pound. Powers are now being taken to increase the amount available for flattening out undesirable fluctuations from £150 million to £350 million.

On only one issue have the Government allowed themselves to be distracted from their struggles to bring down the unemployment figures, and that has been the Russian arrests. The temper of the House of Commons was more inflamed on the debate on the Russian embargo than at any time in the history of this Parliament. It was felt, as Sir John Simon unfolded the story of the fantastic charges and Russian methods, that the actions of the Soviet authorities were a flagrant violation of the principles of international justice. Only the Labour party voted against the grant to the executive of the powers to employ an embargo on Russian goods if it was deemed advisable, and even they were unusually restrained in their criticisms. The feeling of abhorrence at the OGPU was undoubtedly reflected in the country.

But since the promulgation of the sentences public opinion is not perhaps as unanimous as it was. There are doubts whether the British Government have done right in imposing the embargo on Russian imports as they did. It is argued by many that no hostile action ought to have been taken until the petitions of the sentenced men had been heard.

Trade and Unemployment

IV. TRADE AND UNEMPLOYMENT

THERE is some small evidence that an impression has latterly been made in the terrible figures of unemployment. The latest statistics show a decrease of 78,550 in the numbers of unemployed compared with the previous month, when there was a corresponding decrease of 80,454. On April 24 there were 92,000 more persons in employment than there were a year ago. There is a slight but definite improvement in the heavy industries. Under coal, for instance, it is reported that "the immediate enquiry is fairly brisk for all classes of graded steam coal." In iron and steel it is stated that, though the volume of business is still disappointing, "an undertone of confidence continues in the markets." It is announced from the wool area that there is "increased activity among the buyers of hosiery yarns," and from the cotton districts that "home trade is broadening steadily and some of the contracts for summer dress fabrics, limbrics, linings and overall cloths have been for substantial quantities." Leicester reports "possibly a slight increase in business."

There are, however, features in the trade returns which show that the time has certainly not yet come for optimism. *The Economist*, which had found "some evidence of a slow improvement in British industry," in its review of the March statistics, reminds us that the April figures, even allowing for the fact that Easter fell in that month, show a falling off "ominously greater in exports than in imports," that the reduction of £28.1 million in our adverse trade balance for the first three months of the year has now shrunk to £21.3 million, and that there has been a decline of 22.2 per cent. in our re-export trade since the beginning of the year.

The numbers of total unemployed, moreover, notwithstanding the recent reduction, still remain at the huge

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figure of 2,697,634. There is an undercurrent of feeling that the Government is losing ground.

The continued flirting of the Labour party with revolutionary socialism is, however, probably an electoral asset. Sir Stafford Cripps, the ex-Solicitor-General in the Labour Government, who may be Labour's next Prime Minister, has once again stated that a Labour Government with a majority in the House of Commons would pass in the first session a General Enabling Act for the immediate socialisation of banking and other industries. Parliament would be asked merely to express its general approval of the proposal, the details would be transferred from the control of a House of Commons committee to the laboratory of Whitehall. Mr. G. D. H. Cole, who has great influence with the younger Socialists, has elaborated this proposal in a pamphlet for the Socialist League entitled *The Socialist Control of Industry* in which Parliament is definitely relegated to a subordinate position in the constitution. Even the ex-Liberals in the Labour party who up to now have exercised a moderating influence are beating the same drum. Sir Charles Trevelyan speaking in Manchester recently said, "the Labour party is never going to be any good until it makes up its mind that it is out for revolution. By that I mean revolution by English means and English methods. We have got to get the workers to vote for a revolution of our economic society, and then we have got to use constitutional means to carry through that revolution. . . ." It is argued that speeches of this kind prevent the flow of recruits to the Opposition being converted into a flood.

Such by-elections as there have been indicate that, though there is the inevitable decline in the Government vote and an increase in the Labour vote, they have not yet assumed proportions that need give the Government cause for serious alarm. At Ashford a semi-industrial seat of the kind that Labour must capture if it is ever to secure a majority in the House of Commons, the Conservative vote

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only fell by 4,000 on the enormous figure of the general election and the Labour candidate was at the bottom of the poll, 5,000 votes below the Liberal. In East Rhondda, in the heart of the stricken South Wales coalfields, there was no Government candidate, but the Communist who might well have been swept back by "the misery vote" increased his poll by less than a thousand. It can be safely said that as yet there is no growth in the forces of revolution. Indeed the industrial districts are certainly quieter than they were at the beginning of the winter. This improvement in temper is very largely due to the efforts of the Social Service League in providing not merely soup-kitchens and clothing but social and occupational centres for the unemployed.

On the record of the Government as a whole the country is suspending judgment. Its mood has not really changed since the election. It will support any measures that will get it out of the morass. It is united for action. What it will not tolerate is drift. The turning point in the life of the Government will be the meeting of the Economic Conference to be opened by the King on June 12. Is the principle of national self-sufficiency or international co-operation to triumph?

THE IRISH FREE STATE

I. POLITICAL DEVELOPMENTS

OUR political situation is developing "according to plan." The new Dail met on February 8, and re-elected Mr. de Valera as President of the Executive Council. His proposer, Mr. Sean Moylan, expressed the pious hope that on the next occasion he would nominate Mr. de Valera as President of an all-Ireland Republic. Mr. Cosgrave, on behalf of his party, opposed Mr. de Valera's re-election on the grounds that there could be no hope of national advance whilst his policy was persisted in. Mr. MacDermot, the Leader of the Centre party, stated that, whilst they were in strong disagreement with what Mr. de Valera had done and proposed to do, they would not vote against him because they must accept the situation and recognise that the result of the general election made his re-election inevitable, but they could not vote for him, and would therefore abstain. He further stated that the difference between his party and Mr. de Valera was not so much one of objects but of methods, that Mr. de Valera's methods unfortunately struck at the root of Irish prosperity and well-being, and not only created bitterness, but were opposed to all common sense and bound to be barren of any useful results. Mr. Norton, Leader of the Labour party, said that Labour would support Mr. de Valera because it believed that Fianna Fail, in co-operation with Labour, would initiate a bold economic and social policy, and a no less bold national policy.

Mr. de Valera was then re-elected by 82 votes to 54, the Centre party not voting, and, after being received by the Governor-General, announced the composition of the new Executive, which, under our constitution, is nominated by the President and approved by the Dail. The only changes were the expected retirement of Mr. James Geoghegan, K.C., from the Ministry of Justice, the

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transfer to that position of Mr. P. J. Ruttledge, a Mayo solicitor, previously Minister for Lands and Fisheries, the transfer of Senator Connolly, formerly Minister for Posts and Telegraphs, to the Ministry of Lands, and the appointment of Mr. Gerald Boland, formerly Chief Government Whip, to the vacant Ministry of Posts and Telegraphs.

Prior to the opening of the Dail there were strong rumours that the eleven Nationalist members of the Northern Ireland Parliament would attend the first sitting in order to demonstrate against the partition of Ireland. Such a performance would have been both provocative and useless, and fortunately did not take place. A few days later, however, in a broadcast message to America, Mr. de Valera said that Ireland could never abandon the hope of regaining territory hallowed by so many memories and the scene of so many heroic incidents in her history. The efforts of her people would inevitably be bent upon the undoing of partition until all the land within her four seas was once more united. To test the feelings of the Dail on this vital question Mr. MacDermot, the Leader of the Centre party, on March 1 moved that a re-union of the Irish nation founded on good-will should be the primary object of government policy and that every other constitutional issue should be subordinate thereto. In moving this motion he pointed out that the abolition of partition was one of his party's principal aims ; they proposed to abolish partition by abolishing the animosities which were its cause. A republic might be a stage on the road to unity which it was impossible to cut out, even though it took them far out of the direct way. Let them get it over. Such issues as the Governor-General, the oath and the republic were trivial in comparison with Irish unity. The work of Irish re-union had yet to be accomplished in Ireland itself and by Irishmen. For them the beginning of wisdom was the recognition of the fact that we were dealing with the Irish nation of to-day, not with the Irish nation of the past. So long as they confined their idea of

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nationality to what was Catholic, or Gaelic, or anti-English, they would not master the elements of the problem, and all hope of a union of the Irish nation founded on good-will would be an idle dream. The more they taught the Ulster Unionists to believe that they could not claim to be Irishmen at all the more insoluble the problem would become. It was not the constructive side of Irish nationalism that stood in the way of re-union ; it was the side that, even if the North did not exist, they would be better without—jingoism, bitterness, intolerance, narrow mindedness and love of what was tawdry and superficial.

Mr. de Valera, in accepting the motion, complained that it was merely a pious expression of opinion, and that Mr. MacDermot had suggested no solution of the problem. He made, however, the pregnant admission that the only policy he could see for abolishing partition was for us so to use our freedom as to make the people of Northern Ireland wish to belong to the Free State. This is the policy which Mr. Cosgrave and his party have preached and practised consistently for the last ten years. But something more is needed, and Mr. MacDermot is right in suggesting that, if we desire to make progress towards national unity, we must subordinate relatively unessential issues to its achievement. For the moment Mr. de Valera's all-Ireland Republic remains, and is likely to remain, a carrot attached to the nose of the republican donkey, which it can never reach but which serves to distract its attention from realities.

On the same day as he accepted Mr. MacDermot's motion Mr. de Valera proved his complete disregard for the policy it laid down by proposing the Government's resolution to send back to the Senate in its original form the Bill for the removal of the Oath of Allegiance from the constitution.* No step could be more fatal to Irish unity. He made no speech, explaining that the Dail already was

* See THE ROUND TABLE, NO. 87, JUNE 1932, p. 513 *et seq.*, and NO. 88, SEPTEMBER 1932, p. 747 *et seq.*

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fully aware of the circumstances, and that no discussion was necessary. Mr. P. J. McGilligan, however, on behalf of the Cumann na nGaedheal party, insisted that the country must be acquainted with the facts of the case; that the Bill, which the Government now proposed to force into law, bore on its face the acknowledgment that it constituted a breach of the Treaty and that the Government had apparently decided to turn its back on methods of negotiation and agreement. The Treaty was, he said, still in force, although the Government had been trying to smash it piecemeal, and we now had all the disadvantages of isolation without any of the advantages of membership of the Commonwealth to which the Free State still belonged. Even now, however, if Mr. de Valera would institute negotiations with the British Government in respect of the oath, or any other constitutional problem with which the people might be said to be dissatisfied, he would, he was sure, have the unstinted support of all parties in the House.

The resolution was carried by 75 votes to 49. On March 16 the Bill once more came before the Senate, and, although Mr. de Valera pointed out that the electorate had given a clear verdict on the matter and that if the Senate should insist on rejecting the Bill again, there would be an end of democratic government, the Senate refused to pass the Bill. Under the Constitution the Bill was, however, passed into law by resolution of the Dail on May 3, the Senate's right of veto having then expired.

The dispute about the land annuities had meantime been also carried a step further.* On March 7 Mr. Thomas read to the House of Commons a letter which he had received from Mr. Dulanty, the High Commissioner for the Irish Free State, announcing that his Government had decided to use for "normal Exchequer requirements" the sums received from the land annuities and other charges which they had hitherto retained in suspense accounts.

* See THE ROUND TABLE, No. 88, September 1932, p. 747 *et seq.*

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In his reply, Mr. Thomas stated that the United Kingdom Government had received this communication with regret. Their offer of arbitration or negotiation still remained open, but they "cannot be understood to acquiesce in the action now announced." Mr. Lansbury, the Leader of the Opposition, suggested that the Government ought to give way on the "narrow issue" of the chairmanship of the Arbitration Commission, which was the obstacle to negotiation, but Mr. Thomas pointed out that, apart from questions of finance, the political question of the violation of the Treaty was involved. He was equally emphatic in refusing to go outside the Empire for an arbitrator. In reply to a question on April 26, Mr. Thomas stated that the sums withheld by the Irish Free State from May 1932 to date amounted to £4,864,000. The approximate total amount collected from July 15, 1932, up to April 22, 1933, in respect of the special duties and the duties under the Import Duties Act, 1932, on goods imported from the Irish Free State, was £2,727,000. It therefore seems that on April 22, 1933, the amount collected in respect of the duties by Great Britain was £2,137,000 less than the amount retained by the Free State.

It is, however, impossible to estimate accurately the losses, both tangible and intangible, which both countries have suffered by this senseless dispute. It was evident that the action of the Free State Government had become inevitable owing to their increasing financial difficulties, and that it would be impossible for them to meet their obligations without using the money in the suspense account. In the middle of March they introduced, and passed rapidly into law, a measure permitting them to use for ordinary Exchequer purposes the money paid into the land purchase annuities fund. Mr. MacEntee, the Minister for Finance, on the second reading, pointed out that under the existing law the local authorities were bound to make good the deficiency arising from the moratorium granted in respect of the land annuities,

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which in the present year would not be much less than £2,000,000. There were only four ways in which the position could be dealt with, namely, by additional taxation, by withholding local taxation grants, by borrowing, or by the method the Government had actually adopted. Mr. Cosgrave moved an amendment to the effect that the Dail should decline to give a second reading to the Bill until proposals had been introduced by the Government providing that, pending a solution, by arbitration, agreement, or otherwise, of the outstanding disputes with Great Britain, land-purchase annuities should not be collected or payable. He pointed out that there was only one market for our farmers' exportable produce, and this had been, perhaps permanently, injured by the policy adopted. In seven months our exports had decreased by £7,000,000.

Immediately the Bill became law, on March 29, the Government began to use the money in the suspense account for general purposes, and it is now exhausted. But this raid on the suspense account, whilst it relieves, does not end the Government's difficulties. Twelve months ago the farmers were assured that the land annuities would be used, *inter alia*, to relieve them completely of local rates. Mr. Cosgrave's Government increased the original agricultural grant of £599,000, payable under the Local Government Act of 1898, to £1,948,000, and last year Mr. de Valera's Government added an additional £250,000, bringing the total sum devoted to the relief of agricultural rates up to £2,198,000. In order to make ends meet the Government have now had to reduce this grant by £448,000. This means under present rating conditions that even if the annuities are, in accordance with the promise of the Government, reduced by one-half, 30 per cent. of that reduction must be handed over to the rate collector. As the reduction in the grant was not announced until most of the county councils had already passed their estimates of expenditure for the year, it is now

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impossible for them to reduce them, and they are naturally in revolt against the Government's decision. It is clear that these councils, which are largely composed of farmers, are not likely to press strenuously for the payment of rates, and an eventual breakdown of local government is not impossible. The Cork Farmers League has already warned the county council that its members will not pay an increased rate this year, and the General Council of county councils on April 5 passed a resolution stating that the agricultural community was entitled to exemption from rates and annuities during the economic war, and that there was no justification for reducing the grant.

Grants to various educational and cultural bodies, such as the Royal Hibernian Academy and the Abbey Theatre, have also been materially reduced. Economy and culture are apparently incompatible. But the Government believe in equality of sacrifice, and it is not only the farmers who have to suffer. At the end of March Mr. MacEntee introduced an Economy Bill which makes substantial reductions in the salaries of civil servants. He explained that in the first instance its duration would only be for one year. The proposed cuts would result in a saving of £280,000, and he had tried to spread them equitably over all branches of the civil service. The judges would be dealt with by special legislation involving a change in the constitution. In order to balance the budget either social services or salaries must be reduced. The Government did not propose to make economies in the social services or to increase the general level of taxation, so they were, he said, forced to impose reductions in the salaries of civil servants. Those whose total remuneration did not exceed £300 would not be affected; on salaries of from £300 to £400 (including the bonus) there would be a cut of 2 per cent., and from these upwards there would be a steep graduation until at the highest grade the figure of 25 per cent. would be reached. The Centre party moved an amendment making a second reading conditional on a

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reduction in the allowances to members of the Dail and Senate, which, needless to state, was not carried. Mr. Norton, on behalf of the Labour party, strenuously opposed the Bill, which was, he said, a wage-slashing measure on the capitalistic theory that if wages were cut all would be well, and the National School teachers, who have really least to complain of, and who are mostly supporters of Mr. de Valera, held a fatuous one-day strike to demonstrate their righteous indignation.

It is certainly strange that the Government should have chosen this moment of financial stringency to arrange for the repayment of the balance of the Irish Republican Loan, raised in the United States during 1919-21, which amounts to about £1,000,000, and which need not have been repaid until after the recognition of an Irish republic. *The Irish Press*, Mr. de Valera's paper, states that the loan is being repaid to show our gratitude to the Irish in America, and to demonstrate to the world that we admit and pay our just debts. But if the account of *The United Irishman*, the Cumann na nGaedheal party organ, is correct, it should be pointed out that Mr. de Valera, in February 1930, circularised subscribers to this loan and apparently obtained from many of them an assignment of their bonds, which were then being repaid in part out of unused moneys retained in America, to assist in the establishment of *The Irish Press* itself. If so, when these bonds are now paid off in full, Mr. de Valera will, of course, receive the substantial balance due on those already assigned to him and can use the money for the maintenance of the newspaper he controls. The Labour party may justly complain that the amount to be used in repaying this loan would have been better employed at home in saving the civil servants from an unfair cut in their by no means extravagant remuneration.

The relations between the Labour party and the Government are indeed far from cordial, and have not been improved by Mr. Hugo Flinn, the Parliamentary Secretary

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to the Minister for Finance, who is in charge of the unemployment relief schemes, and who refuses to pay in agricultural districts more than agricultural wages. It is true that Mr. Flinn, who is a rather aggressive person, has not attempted to sweeten the pill by his method of administering it, but there is, nevertheless, some point in his complaint that with a necessarily limited grant the higher the wages paid the fewer the persons who can be relieved. It is obvious that if the Government deal firmly with extreme Labour demands they can rely upon the support of the Centre party and are therefore not in jeopardy. Labour is, in fact, virtually impotent in the new Dail, and its followers are beginning painfully to realise that their leaders have sold their birthright for a mess of pottage.

The Government, in fact, seem to be at more pains to placate the extreme republican element than Labour, for they have introduced two Bills, one of which would abolish the declaration of allegiance to the State and constitution which has to be made by local officials, and would compensate those who have suffered loss or disability by refusing to make them. The other proposes to remove the prohibition which prevents persons who fought against the Government in the civil war from obtaining compensation for damage to their property. Perhaps even more significant of this tendency was the Government's removal from office, on February 22, of General Eoin O'Duffy, the Chief Commissioner of the Civic Guard, who has been the head of that efficient police force ever since its formation, and is largely responsible for its satisfactory development. His dismissal had been demanded for several months by *An Poblacht*, the official organ of the I.R.A., but Mr. de Valera, who denied in the Dail that he ever read that journal, indicated that his objection to General O'Duffy was that he was Chief of Police for ten years under the last Administration, and stated that during those ten years every act of indiscipline was condoned. He added that, whether it was the Governor-General or

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the Chief of Police, as long as his Government were responsible for public policy they meant to have men in whom they had confidence. This would have been a perfectly legitimate attitude when the Government first took office, but it was hardly fair to remove General O'Duffy at this stage without any ostensible reason, more particularly as he was offered at the same time an equally responsible office in another department of State, an offer which should not have been made if he is not to be trusted. Altogether this affair following, as it did, upon the removal in a similar fashion of Colonel Neligan, the head of the Criminal Investigation Department, did not increase public confidence in the Administration.

The Government committed another *faux pas* by instituting hasty criminal proceedings, under the Official Secrets Act of 1911, against Colonel Hogan, an army officer and brother of the former Minister for Agriculture, and Inspector Edward O'Connell, the second-in-command of the Crimes Branch of the Civic Guard. When the trial took place it transpired that Inspector O'Connell had quite openly, on instructions received from his superior officer, Colonel Neligan, sent some pamphlets dealing with communism from the official files to Colonel Hogan for perusal by his brother, James Hogan, Professor of History at the National University and a reputable publicist, who is writing a book on communism. The pamphlets, in fact, never reached Colonel Hogan, as the officer who was told to deliver them handed them over to Colonel Broy, the new head of the Civic Guard, and proceedings were hastily instituted without asking the officers concerned for an explanation. The jury stopped the trial before the case for the defence was closed and returned a verdict of "Not Guilty." After this verdict Inspector O'Connell was reduced to the rank of Sergeant, an action which seems contrary to justice.

The I.R.A. refused to be placated by these overtures, and are becoming definitely antagonistic to the Govern-

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ment. They strongly object to the new Volunteer Reserve force which the Government is understood to contemplate forming, and General Sean Russell, one of their leaders, speaking in Dublin on March 24, stated that if there was to be a clash with Great Britain the Republican Army was the only force that could be relied on. He called upon the young men not to become members of the new force, but to join the Republican Army, drill, arm and equip, and be ready to strike for freedom when the opportunity arrived.

Another serious difference has arisen with the Government over a deportation order against one James Gralton, a returned American citizen, who is alleged to be an "undesirable alien" and accused of being a Communist. Gralton, who resides in the County Leitrim, has gone into hiding, and when Mr. Peadar O'Donnell and other I.R.A. stalwarts ventured into the district to hold a meeting protesting against the deportation order, they were soundly beaten by the inhabitants and chased out of the locality. Mr. O'Donnell and his friends maintain that the right way to attack the British Imperialist machine in Ireland is to strike at its foundations, the landlord, the rancher, the banker and other exploiting interests, and that the Government have failed to do so. "The Treaty, the constitution, the legal code, and the economic and social order resultant from these evils" must, they say, all be scrapped as they have been imported from Britain, and the Government, in their view, has become enmeshed in their machinery. The Workers' Republic, which they describe as their aim, is, of course, only camouflaged communism. A draft political report, recently discussed by the organising committee of the Irish Communist party congress, states that

the Irish working class is confronted with the task of winning the leadership of the mass movement against British Imperialism and so defeating the attempts of the national middle class to come to a compromise on the basis of a revised treaty. This is the path forward to a united independent Ireland, to a Workers' and Farmers' Republic, to the dictatorship of the working class in alliance with the working farmers.

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A considerable number of the I.R.A., and the political wing known as Sinn Fein, of which Miss Mary MacSwiney is the real leader, do not agree with these views. Neither has the Catholic Church any illusions as to where they lead, and influential clergymen as well as the Catholic press demand Catholic and, if necessary, State action to prevent the organisation of a Communist party in the Free State. Communism commands at present no real support amongst the people; in fact, a very different attitude was revealed when a mob recently wrecked Connolly House and other premises in Dublin which are identified with the communist movement. An amusing incident in connection with this occurrence arose out of the subsequent police proceedings against Mr. Charles Gilmore, a famous I.R.A. hero, for carrying a revolver and using threats. Gilmore stated that he had permission to carry a gun from the I.R.A., the only people in the country competent to give it, whereupon the Adjutant-General of that force wrote to the press to state that Gilmore had no such permission.

A sense of humour would really be more valuable than guns to the I.R.A., but the A.C.A., or Army Comrades Association,* which is the rival organisation, seems to be equally defective in this respect, for one of its prominent members in Kerry, having recently seceded from the organisation, proceeded to form a new body which he called the Irish Unity League! The A.C.A. have now revised their constitution, and define themselves as a civil organisation giving disciplined service to the nation, whose principal objects are to promote the reunion of Ireland by peaceful means, to oppose communism, and to safeguard the right of free speech. They have adopted blue shirts and black berets as their official uniform, and are taking steps to improve their organisation throughout the country. These indeed are not the only manifestations of a Fascist trend in our political life. Mr. Cosgrave's party organ, *The United Irishman*, has recently published an unofficial article

* See THE ROUND TABLE, No. 89, December 1932, p. 125.

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attacking our "demagogic parliamentary constitution," to which it attributes Mr. de Valera's success, and claiming that the only hope of stopping shady politics is a great movement for the establishment here of an organic associative State on Fascist lines ; whilst Mr. de Valera himself has recently stated that it would be a very good thing for the country if the Government could get six months' holiday from the Dail in order to solve the question of unemployment. The one thing we unfortunately seem to lack is a Mussolini.

II. TRADE AND TRANSPORT TROUBLES

ONE of the new and vital factors in our economic life is the increase of our population. This is due principally to the virtual stoppage of emigration to America. The increase now is at the rate of from 10,000 to 20,000 a year. Ten years ago the decrease, owing to emigration, was from 20,000 to 30,000 a year. The increase in population at present is not equivalent to that, because apparently deaths are exceeding births in a higher degree than formerly. The total population is now virtually 3 million ; in 1930 it was 2,946,000. The Government claim that their tariff and tillage policy is the only sound method of absorbing this surplus population, and that we are now passing through a transitory period of hardship before the new policy begins to bear fruit. Whatever may be the ultimate effect of this policy there can be no doubt about its present unpleasant results. During the last twelve months the persons in receipt of Poor Law relief have increased by more than a third. In some of the more remote country districts trade is sometimes carried on by a system of barter. Shopkeepers are reducing credit in all directions, and business generally is stagnant. Organised Labour will not allow social services to be cut, the farmers are clamouring for more relief, and the patient middle classes are being bom-

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barded with income tax assessments and demands, for they are fair game and no one's child.

The latest trade returns illustrate only too well the disastrous results of the economic war. Our total trade for the year that ended on February 28 was £64,742,278, as compared with £86,210,865 in the previous year. In the same period the adverse balance rose to £15,393,328, as compared with £14,124,043. Only 71 per cent. of the Free State imports in February came from Great Britain and Northern Ireland, while Germany, Poland, the United States, Holland and Sweden increased their sales to us, but not their purchases. However much we spend abroad we cannot sell abroad. Great Britain and Northern Ireland still take 94 per cent. of the goods we export, and no one else will do this. Our import of motor cars for January and February, 1933, has, owing to the prohibitive tariffs, fallen from 1,047 to 106. To meet this situation, the Ford Company are using a portion of their almost closed Cork factory to assemble their "baby" car, but, as things are now, even "baby" cars will shortly be a luxury beyond most people's means. The export of live stock during the first two months of 1933 shows a decrease of more than a million pounds as compared with the corresponding period of 1932. Our total exports for the same two months show a fall of over two million pounds as compared with last year.

On the other hand, Mr. Lemass, the Minister for Industry and Commerce, speaks of a hundred new factories, and claims that unemployment is decreasing, that we are becoming more and more self-supporting, and that we are the only country not suffering from over-production. In spite of these developments, however, the past year was the most unfavourable the Irish banks have experienced in recent times. Their aggregate profits show a reduction of £165,000, or 14 per cent. Each bank shared in this fall in earnings, and in every case dividends were lowered. There is no doubt that this state of affairs is due to the condition

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of our agricultural industry. The recently published census of industrial production shows that during the period 1926-1929, under the Cosgrave Government, the net output rose by 8 per cent., and the number of persons employed by 4·2 per cent. The same return shows that exports then constituted 38 per cent. of total production in the Free State, as compared with 27 per cent. in the United Kingdom.

On April 13 the *ad valorem* duty of 40 per cent. on Free State cattle entering England was altered to a *per capita* duty varying from £1 5s. to £3, according to the animal's age. This change has apparently been made for administrative reasons and is not expected to affect the yield of these duties in the aggregate. Whilst all these things are going on, the Argentine and the Scandinavian countries are busy negotiating trade agreements with Great Britain which give preferences to British goods in return for preferences to their products, which are chiefly agricultural. Our trade rivals suffer from no anti-English complex and will not cut off their noses to spite their faces. In short, since the economic war was started our agricultural producers have lost far more than they could possibly gain by the complete remission of the land annuities. If the dispute lasts much longer they can reconcile themselves to the painful fact that no outlet will exist for their produce, except the very limited and grossly over-rated home market. The Scandinavians and the Argentinos will have captured what should belong of right to the Irish Free State.

Our present difficulties have been further aggravated by trouble on the railways. In January a strike took place on the Great Northern Railway, owing to the refusal of the railway unions to accept the cut of 10 per cent. in wages which was sanctioned by the Wages Board. This strike would have taken place also on the Great Southern Railway if the Free State Government had not agreed to pay by subsidy the difference in wages until the end of April. They could not do this on the Great Northern line, a large portion of which is situated in Northern Ireland.

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The strike lasted for over ten weeks and caused a serious dislocation of life in the districts served by the railway, although it also demonstrated conclusively how easily the railways could be dispensed with altogether. It was unfortunately accompanied by acts of sabotage, such as the derailing of trains and the throwing of bombs at trains and 'buses, some of which resulted in loss of life. No one believes that the railway men were responsible for these outrages, which indicate that sinister revolutionary forces were only too ready to use the strike for their own ends. After several abortive conferences in Belfast, where the Northern Government's attitude towards Labour did not help matters, the strike was finally settled in Dublin on April 5, largely through the good offices of Mr. Lemass. He also settled an unofficial strike which then broke out in the Dublin district of the Great Southern Railway and lasted for a few days. The 7½ per cent. cut, with no allowances for holidays, to which the unions finally agreed, is virtually the same as the 10 per cent. reduction awarded by the Wages Board, and the terms of reinstatement enabled the companies to stand by the men who remained loyal.

There is some quite natural indignation in Ireland at the policy of the English railway unions which apparently involves fighting their test cases here at our expense. The perilous position of the Great Southern Railway is amply proved by the Company's annual report, which was issued at the end of February.* Gross receipts have fallen by nearly half a million pounds, and although expenditure was reduced by nearly a quarter of a million pounds, there was only a balance of £44,995 available after payment of debenture interest and fixed charges, so no dividends could be paid. The economic war is, of course, responsible for much of this loss. Nor is this condition of things due to mismanagement, for during the last seven years the directors, by economies and reorganisation, have reduced

* See THE ROUND TABLE, No. 83, June 1931, p. 631 *et seq.*

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annual expenditure by £1,282,421. They have also acquired control of the principal omnibus and road delivery concerns in the Free State, so that they can now undertake co-ordinated transport service both by rail and road throughout the whole Free State.

The Government's policy of dealing with this crisis in our transport system is embodied in three measures, the Road Traffic Bill, the Road Transport Bill, and the Railways Bill. The Road Traffic Bill is a non-controversial measure on somewhat similar lines to that introduced by the Cosgrave Government, but not passed into law.* It provides a very necessary code for the regulation of road traffic, including compulsory insurance of motor cars, on the lines of the recent English Motor Car Act. The Road Transport Bill compels all transport of merchandise and passengers by road to operate under licence, and authorises the railways, subject to the Government's consent, to transfer any such licences to themselves. They must pay compensation for these transfers, with further compensation for disemployed labour, and the terms of transfer will be settled by an arbitrator. As the Great Southern Railway are already in a position to eliminate competition by ordinary trade processes, it seems rather hard that they should now have to buy their competitors off the roads and liberally compensate their employees.

The Railways Bill is the most revolutionary measure of the three. Its outstanding provision is the drastic reduction of the Great Southern Railway Company's capital by more than one-half, from £26,000,000 to £12,000,000. £100 of 4 per cent. Debenture Stock are reduced to £85, of 4 per cent. Guaranteed Preference Stock to £50, of 4 per cent. Preference Stock to £35, and of Ordinary Stock to £10. All these securities are held extensively in Ireland, and many thousands of small investors have received a most unpleasant surprise on learning that their capital has

* See *THE ROUND TABLE*, No. 85, December 1931, p. 151.

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almost vanished. The shareholders were not consulted and the directors did not consent to this drastic step. The legal position of the debenture holders, which is, of course, quite different to that of the shareholders, seems to have been completely ignored or overlooked. The right of the London, Midland and Scottish Railway Company to nominate a director on the Great Southern board is repealed, and the number of directors is reduced from twelve to seven. Nor does the Bill hold out any hope of reward to the shareholders for these compulsory sacrifices. It increases restrictions and holds out no prospect of greater traffic or substantial economies. The Railway Tribunal will continue to control freights and charges. It is true that the Company can discontinue or reduce unprofitable train services, but in every case they must provide an alternative road service and compensate redundant workers. The net result is a measure which halves the Company's capital, increases its burdens, and will do little to revive its fortunes.

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CANADA

I. THE GOVERNMENT AND ITS CRITICS

THE Federal Parliament, which had concentrated its energies during the autumn part of the present session mainly upon consideration of the fiscal agreements reached at the Imperial Economic Conference, resumed its labours on January 30, but expectations, based on the modest character of the legislative programme, that prorogation would be possible either before or immediately after the Easter recess, were not fulfilled, and the project, which the Opposition have agreed to facilitate, of winding up business by May 15, in order to allow the Ministry some time for adequate preparations for the World Economic Conference, which Premier Bennett will attend as Canada's chief representative, will entail the jettisoning of part of the Government's legislation.

The resumption of the session found the Liberals, who constitute the official Opposition, eager to exploit the popular discontent, and the disillusionment with the Government's policies which the persistence of the depression had generated, and to indulge in a comprehensive arraignment of the Ministry for a variety of sins of omission and commission. And since they were well equipped with parliamentary debating talent, they were able to press Ministers very severely on numerous occasions. Their general strategy was to limn the Ministry as in reality a reckless and incompetent dictatorship, manipulated by a Prime Minister who treated his colleagues as office boys, and who stubbornly refused to acknowledge the error of his ways, and to reverse fiscal and other policies which had aggravated the Dominion's economic difficulties and constituted a fatal barrier to any prospects of an early recovery of prosperity. Mr. Bennett and his colleagues strenuously denied the validity of these accusations about the Premier's dictatorial proclivities and, while admitting

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that the fruits of the remedies which they had prescribed for the country's troubles had failed to realise their hopes, contended that the responsibility for their failure lay in general world conditions, beyond the possibility of cure by any Canadian Government, and that their tariff and financial policies had averted a wholesale industrial *débâcle* and maintained Canadian credit at a high level in the money markets of the world.

The Canadian public was disposed to make considerable allowance for the special difficulties which faced the Ministry, but it was far from satisfied with certain of its performances and was obviously reluctant to accept the picture of Ministers as a band of earnest, able men struggling with adversities beyond their own control. Three years' experience of the Bennett Government has produced an almost general consensus of opinion among intelligent Canadians that it contains too large a proportion of feeble vessels to be a first-rate administration, and that, prodigious and tireless as the labours of its leader are, they cannot compensate for the absence of sound intellectual equipment and administrative energy from which too many of his colleagues suffer. Peculiarly weak is the French-Canadian element in the Ministry, and, until conservatism can recruit for itself some reasonably competent leaders in the province of Quebec, its spells of power at Ottawa can only be intermittent.

But, although the Liberal Opposition is confident that the tide of public sentiment, to judge from the evidence of by-elections and other symptoms, has definitely turned against the Bennett Ministry, it has no serene confidence about its own future prospects. Its leaders have come to realise that a barrage of taunts about unfulfilled election pledges, and accusations about the inadequacy of ministerial policies, will not convince the country in its present mood that a Liberal Government can offer any better promise of economic salvation than a Conservative, and also that the bid which the new radical party, styled the Co-operative

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Commonwealth Federation, is making for the support of the disgruntled elements among the voters cannot be treated lightly. So, after Parliament reassembled, the Liberal board of strategy proceeded to evolve for their party a new programme, which Mr. Mackenzie King disclosed in a speech delivered in the House of Commons on February 27. The majority of its fourteen items were largely in the nature of affirmations of doctrines which have been the stock-in-trade of the party since the war, but some new ground was broken. For example, the party is now definitely committed to the establishment of a national bank of rediscount, an investment control board and a system of unemployment insurance. With regard to the fiscal question, it is pledged, as soon as it is returned to power, to restore the general tariff to the level which prevailed before the advent of the Bennett Ministry, to enlarge the British preferential rate, to wipe out various arbitrary customs regulations designed to strengthen the protectionist fabric, and to negotiate liberal trade treaties with foreign countries. The new programme marks a distinct leftward advance for Canadian Liberalism, and is obviously planned for the purpose of stealing the thunder of the Co-operative Commonwealth party, but there is no certainty that it can accomplish this object, and meanwhile its more radical features have caused a certain restlessness among the more conservative faction of the Liberals of Quebec, which the Conservatives are assiduously trying to fan.

In Parliament the representatives of the new party have not during the session made a very effective impression, and there was recurring evidence of disunity of purpose. Some of them were frankly and persistently sympathetic to the Government, and one of these sympathisers, Mr. Milton Campbell, was rewarded with an appointment on the new Tariff Board, for which his qualifications are difficult to discern. Another group, headed by Mr. J. S. Woodsworth, an experienced Labour politician, who is

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the titular leader of the new party, were continuously critical of the Government and its policies, and voted against it on practically every division. But they felt it good political strategy to be equally critical of the Liberal party and all its works, and to develop the thesis that there is no fundamental difference between the creeds and policies of the two historic parties. Naturally this attitude exasperated the Liberals, and there has, as a consequence, developed a cleavage between the two wings of the Opposition which will make co-operative arrangements between them for the avoidance of three-cornered contests at the next general election extremely difficult. Meanwhile the leaders of the Co-operative Commonwealth party have been exceedingly active in their campaign of propaganda in the country, and the large attendances which their meetings attract indicate that they find, at least in all the provinces west of the Ottawa River, fertile seedbeds for their policies, which are of a frankly socialist nature, and that the number of their adherents, who are drawn from both the Conservative and Liberal parties, is growing steadily as the depression deepens. In Parliament the agrarian members of the party were, during the session, very zealous advocates of currency inflation and the complete abandonment of the gold standard, and have had the satisfaction of seeing the Government converted by force of circumstances to the second part of their monetary policy.

The month of February was mainly consumed in academic debates initiated by the resolutions of private members who had been debarred from this form of activity during the autumnal sittings, and the resulting expositions of pet panaceas and the ventilation of grievances, if they rarely produced any tangible results, at least satisfied the orators who essayed them, and may have helped to convince doubting voters of their parliamentary industry. Early in March, however, the Government called a halt to these enterprises and demanded the attention of the House of

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Commons to more serious business. They did not wait for the end of the financial year on March 31, for the Federal budget was submitted on March 21 by Mr. Rhodes, the Minister of Finance, who had a somewhat sombre tale to tell about the national finances. Estimated revenues of \$315,290,000, placed against ordinary expenditures of \$364,425,000, had left a nominal deficit of some 49 million dollars, but it was seriously swollen by heavy additional debit items of \$9,123,000 for capital expenditure, of \$42,483,000 for special expenditure such as unemployment relief and the wheat bonus, and of \$1,959,000 for minor extraordinary charges, which raised the total of the expenditures to \$417,990,000. But, in addition, a sum of \$68,135,000 had to be provided for the deficit of the Canadian National Railway system, \$17,489,725 had to be advanced to western provincial administrations to avert defaults on their obligations, and some 6½ million dollars found for the needs of different harbour commissions. So the aggregate result was a deficit of very formidable proportions, and Mr. Rhodes had to admit that the net national debt, which he placed on March 31, 1933, at \$2,649,000,000, apart from indirect obligations totalling roughly 996 million dollars, had increased during the fiscal year by \$102,700,000.

However, in a comprehensive review of the Dominion's financial and economic situation with which he favoured the House, Mr. Rhodes argued that the Government's policy of meeting its foreign debt obligations according to contract, restricting the export of gold and purchasing the whole domestic output of this metal, had been fully justified by its results, and, aided by the proved stability of the banking system, had kept the financial repute of Canada high in the outside world. He did not minimise the serious character of certain features of the economic situation, but contended that purely local remedies were unavailing for the cure of conditions created by a depression whose causes and scope were world-wide, and that any

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adequate solution must await concerted international action at the forthcoming World Conference, which he hoped would secure a relaxation of exchange controls and other abnormal restrictions upon trade, stabilise currencies and stimulate a rise in the world level of commodity prices.

Discussing the monetary problem, Mr. Rhodes pronounced definitely against schemes either for currency inflation or for linking the Canadian dollar with sterling, and asserted that the Government's policy of letting the Canadian dollar find its own level had resulted in a not unsatisfactory compromise between the ideas of such interests as desired close relations with sterling and those which dreaded the consequences of a heavy and fluctuating exchange premium against the Canadian dollar in New York. But he also intimated that the Government was not wedded to any hard and fast monetary theory, and that it had decided to appoint a Royal Commission on the lines of the Macmillan Committee in Great Britain, with instructions to undertake an investigation of the whole range of Canada's banking and monetary problems, and to frame in its report recommendations which would be a useful guide both to the Ministry and Parliament in the decennial revision of the Bank Act that was due to take place this session, but has been postponed until the results of the World Conference are disclosed. He likewise intimated that the Government favoured the reduction of interest rates on bank loans, mortgages and long-term bonds and, as an incentive to such action, proposed to reduce the rate of interest of post office savings deposits, an example which has since induced the Canadian banks to reduce their interest rates on deposits from 3 to $2\frac{1}{2}$ per cent. Another interesting announcement was to the effect that a few days previously the Government had decided to extend the wheat bonus of 5 cents per bushel paid for the crop of 1931 to the crop of 1932.

For the fiscal year 1933-34 Mr. Rhodes estimated a

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revenue yield of 287 million dollars on the existing basis of taxation, against estimated expenditures of 369 million dollars, and then proceeded to explain that the Government aspired to fill this gap by reducing controllable expenditure by about 14 million dollars and levying new taxation calculated to yield 70 million dollars ; he claimed, therefore, the prospect of a small surplus of 2 million dollars on ordinary account. The new taxation included substantial increases in the personal and corporation income taxes, a tax of 5 per cent. on all interest or dividends received by Canadian debtors, if cashed in a currency which is at a premium over the Canadian dollar, and a tax of 5 per cent. on all dividends or interest paid by Canadian debtors to non-residents of Canada. Provision was also made in the budget to close certain loopholes whereby the holders of bearer securities have been able in the past to dodge the income tax, to the substantial loss of the Treasury. The sales tax was maintained at its existing level of 6 per cent., but complete or partial exemptions which had been conceded to different commodities were wiped out. The tariff changes of the budget were relatively few, being confined to some 60 items, and any alterations which will adversely affect British trade are more or less balanced by concessions which will help it. But the most surprising item in the budget was a plan for the creation of an Agricultural Stabilisation Fund designed to assist primary producers who are exporting to the British market and to offset the unsettling effects of fluctuating exchanges. From this fund there will be paid on a variety of exports, which include livestock, meat, bacon, poultry, fresh and canned fish, tobacco, cheese, milk products, canned fruits and vegetables, eggs and honey, a bonus representing the difference between the price actually received and what it would be, if sterling had in Canada a value of \$4.60.

The budget made no provision for extraordinary expenditures like the Canadian National Railways deficit, which cannot fail again to be very heavy, but it showed a

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determination on the part of the Government to achieve a balance on what are now regarded as the ordinary accounts. It was the subject of debate which, lasting till April 12, was marked by the usual partisan controversy about tariff policy and other matters, but produced few interesting speeches and was notable for the fact that, for the first time for many years, both the Premier and the Leader of the Opposition abstained from participation in it. The Liberal line of criticism was that the budget's contents furnished convincing proof of the incompetent stewardship of the Ministry, that the taxation changes bore more heavily upon the poorer than the richer classes, that the Agricultural Stabilisation Fund was a foolish and wasteful adventure, and that the Government's persistence in a policy of rigorous protectionism stood condemned by the progressive shrinkage of Canada's foreign trade and the deplorable plight of all the basic natural industries. The agrarian representatives in the Co-operative Commonwealth Federation group directed their chief fire against the ministerial devotion to monetary orthodoxy, and the Labourites to its mishandling of the unemployment situation.

The Conservative defence was that the budget represented an honest and courageous effort to cope with abnormal circumstances, and that Canada would court a grave crisis, if her economic bosom was bared any further to world competition by the tariff reductions which the Liberals urged. In the course of the debate, however, the Government was compelled to make concessions which will probably wipe out the anticipated surplus; protests from organisations of ex-service men forced it to withdraw a proposal that war veterans who held posts in the civil service should lose their pensions, and the hostile attitude of the London Stock Exchange to the projected levy on dividends and interest paid to non-residents of Canada induced Mr. Rhodes to announce that it would be modified to exempt bonds guaranteed by the Canadian Government

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from it. Eventually, after a Liberal amendment, which was a general arraignment of the Government's policy and amounted to a vote of no-confidence, had been defeated by 119 votes to 63, and a Co-operative Commonwealth Federation amendment, which urged immediate inflation of the currency and correlated changes in financial policy, had shared the same fate by 171 votes to 13, the Government got its budget passed on April 12 by 107 votes to 72; it had the support of one solitary western agrarian, but the rest of the Opposition groups voted solidly against the budget.

The Railway Bill, which embodied most of the recommendations of the Duff Commission on transportation, had been expected to provide the sharpest controversies of the session, for some of its terms were notoriously unpalatable to the Canadian Pacific Railway, which from the moment of its production embarked upon a vigorous campaign of propaganda against it. When it was submitted to the Senate last autumn, the political friends of this corporation made strenuous efforts to secure amendment which would at least eliminate the plan for compulsory arbitration of points in dispute between the two great railway systems, but the Government stood firm against any but minor amendments. When the Bill reached the Commons, rigid party discipline was applied to prevent any insurgency in the Ministerial ranks on behalf of the C.P.R., and a division of opinion was found to exist in the ranks of the Opposition. The great majority of the Liberal party, while willing to accept the general principles of the Bill, objected to the Government's abandonment of all responsibility for a great national property to a Board of Trustees, and feared that its real objective was to pave the way for merger of the two systems under C.P.R. control, but a substantial element in the party and most of the Independents thought that the proposed legislation was worth a trial, and so the Government, although it has not yet secured a passage for the Bill, has been able successfully to resist all amendments.

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Apart from the railway legislation, the most important measures before Parliament were a Redistribution Bill and a Bill to amend the Canada Shipping Act. The Redistribution Bill was turned over to a special Committee of the Commons, and in the course of its deliberations there were the usual bouts of partisan squabbling about the readjustment of electoral divisions, necessitated by changes in the balance of population revealed by the last census. Urban members on the Conservative side tried without much success to get the discrepancy between the population quota for urban and rural divisions, which has always been much smaller for the latter, lessened, and representatives of Nova Scotia put up a heroic but unavailing fight against the province's loss of two Federal members which the result of the census decreed. On most of the disputed points acceptable compromises were reached, but on others no agreement could be achieved and, in view of the plans for an early prorogation, it seems altogether probable that the passage of the Redistribution Bill will have to be postponed till next session. A similar fate probably awaits the new Shipping Bill, which is a very voluminous measure of some 800 sections and aims at giving Canada full control of her own shipping in conformity with the new constitutional régime created by the passage of the Statute of Westminster in all the parliaments of the Commonwealth.

An interesting development of the session was the re-emergence of the old and thorny problem of trade relations with the United States. Utterances of Mr. Roosevelt during the recent American election had made it reasonably clear that he was ready and anxious to negotiate a reciprocity treaty with Canada, and when Mr. Duff, a Liberal from Nova Scotia, moved a resolution advocating that, in view of the manifold benefits which would accrue from a fair reciprocity treaty, the Canadian Government should lose no time in opening negotiations, Mr. Bennett, who had been one of the most vehement

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opponents of the Taft-Fielding pact in 1911, somewhat surprised both the country and his party by acknowledging that freer trade relations with the United States would be very valuable to Canada, and intimating that the Government could not refuse to examine any reasonable offer of trade reciprocity, provided that there was a guarantee of some permanence for any treaty that might be arranged. Mr. Mackenzie King and other Liberals indulged in satirical commendations of the conversion of a Conservative Ministry to the merits of the traditional Liberal policy of reciprocity with the United States, but argued that, desirable as an equitable reciprocity treaty was, it was unattainable by a high protectionist administration in Canada, and that its commitments in the Ottawa agreements were an insuperable obstacle to a treaty of any value. Since this debate officials of both countries have been engaged in exploring the possibilities of a trade bargain, and Mr. Bennett during his recent visit to Washington discussed the problems involved with Mr. Roosevelt, but the negotiations are still in the embryo stage and will be held in suspense until the World Conference has taken place. In the debate Conservative speakers followed Mr. Bennett's lead and gave a guarded approval to the idea of negotiations, but Conservative papers like the *Montreal Gazette* had been manifesting some disquietude about the idea of a reciprocity treaty and asserting that it is unwise for a Conservative Ministry *infandum renovare dolorem*.

II. CANADA AND THE FAR EAST

THAT Canada is a Pacific Power is only gradually being realised in the central and eastern provinces of the Dominion. Once one comes east from British Columbia and the prairies to Ontario, Quebec and the maritime provinces, the Far East becomes ever more remote. In western Canada public opinion on political and economic

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questions may be fashioned to some extent by consideration of the effects of certain policies on our relations with Pacific countries, but in eastern Canada almost no weight is given to this consideration. It is significant that during the Sino-Japanese crisis the eastern Canadian press has on the whole tended to be pro-Japanese, the western press pro-Chinese. Perhaps the holding of the fifth Conference of the Institute of Pacific Relations at Banff in August this year may help eastern Canada to realise that the Dominion is a Pacific Power and that this fact affects her trade and the domestic and foreign policy of her government. The remarks that follow are concerned only with Canada's relations with China and Japan, since her relations with the Soviet Union complicate the problem too greatly to permit of treatment in a short space.

It is comparatively simple to study the past development of Canadian trade with China and Japan, but it is not at all easy to gauge future possibilities. Canadian exports to Japan increased in the period from 1920 to 1929 from a total of about \$7 million to one of \$42 million; while our exports to China nearly quadrupled in the same period, amounting to about \$24 million in 1929. But even when Canadian exports to China, Japan and Hong-Kong were at their height in 1929, they constituted only about 5 per cent. of all Canadian exports, and only about 3 per cent. of the total Japanese imports and 1 per cent. of the total Chinese imports. Our visible imports from the Far East did not show any particular increase in this period. The imports from Japan even showed a slight decrease from 1920 to 1929. In the latter year they stood at about \$13 million. From China, Canadian imports increased, but even in 1929 they were only about \$3 million. During the first year of the depression Canada's exports to Japan shrank less rapidly than her exports to Germany and the Netherlands, so that Japan instead of being Canada's fifth best customer became her third best customer. This sounded magnificent in orations about the possibilities of

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Canadian trade with Japan, but Japan came a pretty poor third—Canada's exports to the United States being seventeen times as valuable as her exports to Japan, and her exports to the United Kingdom being over nine times as valuable. From 1930 to 1933 Canadian trade with the Far East has shrunk even more than her trade as a whole.

This decrease in Canadian trade with the Far East should not blind us to the possibilities of its development in the future—if international trade has any future. The Canadian Chamber of Commerce sent a trade mission to the orient in the autumn of 1930. In the words of its chairman, it returned confident that "Japan, China and Hong-Kong constitute Canada's richest potential market." The delegation argued that Japan offered an expanding market for three groups of Canada's primary or semi-manufactured products : wheat and flour, lumber and wood products, and minerals. China, they thought, was a potential market not only for such products but also for fully manufactured goods. The delegation laid special stress on the large potential market for wheat in the orient, should the standard of living of the population rise.

The delegation did not suggest how exports from Japan and China to Canada could be increased. They contented themselves with recommending that an attempt should be made to import directly to Canada from the orient, rather than through other countries, as this would improve the visible trade balance. The truth of the matter is, probably, as Professor H. F. Angus has written, that

the future purchasing power of China and Japan is not likely to be derived from sales to Canada, and (Canadian) trade with the orient is likely to be dependent upon some very elaborate three, four, or five cornered exchange, which brings back the price of our lumber and our grain in the form of English woollens or in the extinction of past indebtedness.*

The expansion of Canadian trade in the Far East is therefore dependent not only upon the establishment of

* *Economic Problems in British Columbia. (Contributions to Canadian Economics. Vol. II, 1929, p. 48.)* By H. F. Angus.

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order in the Far East, and a rise in the standard of living there, but also upon a restoration of international trade in general so that the five-cornered exchange may be possible.

It is, of course, dependent also upon good feeling between the Far East and Canada. The deadly weapon of a boycott might wipe out most of our trade with China, even if the world manages to fight its way to stability and prosperity. Bad feeling between Canada and the two great oriental Powers has in the past arisen in the main from Canada's restrictions upon oriental immigration and from her treatment of orientals within Canada. As almost all the Japanese and the majority of the Chinese in Canada live in British Columbia, that province has been the scene of most of the legislation directed against orientals in the last sixty years.

Popular feeling against the Chinese and Japanese in British Columbia reached its height about 1907 when anti-Japanese riots occurred in Vancouver. This resulted in Mr. Mackenzie King being appointed a government commissioner to investigate the affair, and in Mr. Rodolphe Lemieux being sent to Japan to arrange a "gentleman's agreement." Under this "gentleman's agreement" the Japanese government itself undertook to limit qualitatively and quantitatively Japanese emigration to Canada. Japanese immigration into Canada has, as a result, been cut down to a mere trickle—only about 350 Japanese a year entering in the period from 1925 to 1929. So far, therefore, as the treatment of Japanese immigration is concerned the relations between Canada and Japan are quite harmonious; certainly much more harmonious than the relations between Japan and the United States since 1924, when the United States cancelled their "gentleman's agreement."

The reverse is, however, true of the relations between Canada and China. Starting in 1885 a head tax was imposed on all Chinese entering the Dominion. It was \$50 to begin with and had increased to \$500 by 1904. It resulted in 80,000 Chinese paying Canada \$18 million

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for the privilege of entering the country. In 1923 the head tax was abolished and a Chinese Immigration Act passed which might more properly have been called a Chinese Exclusion Act. As a result of its provisions only four Chinese immigrants were admitted to Canada in the five-year period from 1925 to 1930. What is offensive to China in this Act is that she is singled out by Canada for arbitrary treatment. If she does not get at least the same treatment as that accorded to Japan, she may, as soon as she can afford the luxury of quarrelling with western nations, boycott Canadian goods. It is indeed possible that Canadian goods would have been boycotted by now had not the Japanese come to Canada's assistance by creating a diversion in Manchuria.

So much for the Canadian laws on the immigration of orientals to Canada. What of their treatment when once admitted? What happens when the culture of the Far East comes into contact with the culture of the West?

Although taking the Dominion as a whole, persons of Chinese or Japanese origin and descent constitute less than 1 per cent. of the population; in British Columbia they are numerically quite important. According to the 1931 census there were in that province 27,000 Chinese and 22,000 Japanese out of a total population of about 700,000. The Chinese and Japanese constituted, that is, about 7 per cent. of the population. There is no reason for believing that the Chinese population of the province, or of Canada, will increase. In the first place, out of 47,000 Chinese in Canada, only 3,500 are females. Secondly, no immigration is permitted. Thirdly, hundreds of Chinese every year are now relinquishing their right to live in Canada. Probably in twenty years' time only a small Chinese community will remain. There is, on the other hand, reason to believe that the Japanese population will increase, since the Japanese are allowed to bring their wives into the country and their birthrate is high.

In any event, whatever the future possibilities may be,

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the British Columbians think that orientals should be discouraged from living in Canada, and, aided by the Federal government, they have passed legislation, discriminating against them, regardless of whether or not they are Canadian citizens by birth or naturalisation. British subjects of Asiatic race are excluded from the professions of law and pharmacy. They are not given the municipal, provincial or federal franchise in British Columbia unless they served in the Canadian forces during the great war. With that exception they are excluded from election to the provincial legislature, from municipal office and from jury service. How long this policy of racial discrimination will persist in Canada it is impossible to say. An acquaintance with its more unpleasant features is recommended to anyone wishing to prick the bubble of the self-esteem of a Canadian prating about the way in which Canada has led the world by her treatment of racial minorities.

Canada's contacts with the Far East are not only in trade and immigration, but in many other ways as well. The Gest Research Library at McGill University is said to be the most outstanding and comprehensive Chinese library on the continent. McGill has also appointed recently a professor of Chinese language and literature. In Toronto, the Royal Ontario Museum has concentrated its attention upon building up a Far Eastern art collection, the Chinese section of which is internationally famous. The churches in Canada have also an intimate contact with the life of the Far East, about two-thirds of the foreign mission efforts of the Protestant churches being directed towards China, Japan, Korea and Formosa.

The most important of all the ways, however, in which the Far East has influenced Canada since the war has been by its effect upon her foreign policy. Canada's foreign policy with regard to the Far East must be determined in part by the desire of her exporters to the orient for a stable market. She consequently desires, as we have seen, stability in the Far East and, of course, the "open door,"

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and also an ordered international society. Her policy will necessarily be affected too by her desire for freedom from entangling alliances ; by her political attachment to the British Commonwealth ; by her economic and geographical attachment to the United States ; and by her membership of the League of Nations. It is the fact of her economic attachment to the United States and her political attachment to the British Commonwealth which makes it essential for her that there should be no fundamental divergence in foreign policy between the United States and the United Kingdom. It is her position on the North American continent and her growing interest in the Pacific which make her foreign policy on Far Eastern questions usually identical with that of the United States. Thus in 1921 she opposed a continuance of the Anglo-Japanese Alliance, for she was well aware of the growing tension between the United States and Japan which had followed the war, and of the consequent possibilities of Anglo-American ill-will were the treaty renewed. It is curious, therefore, that when a similar divergence between the policies of the United States and of the United Kingdom governments arose in 1931, and a similar tension was created between the United States and Japan, Canada did not play once more the rôle of 1921. Instead, her representative at Geneva, the Secretary of State, Mr. Cahan, delivered on December 8, 1932, the most pro-Japanese speech that was made in the special Assembly by a non-Japanese speaker. Rumour has it that the American representatives at Geneva were up in arms over this desertion of the North American position.

That this speech constituted only a temporary and unauthorised aberration in Canadian foreign policy can be shown fairly conclusively from an examination of its text, and from certain events which have subsequently taken place. A perusal of the text suggests that this speech had two authors : the author of the first part being Mr. Cahan, and the author of the second part, the Department of

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External Affairs. The second part was good League doctrine. The first part was unexpectedly pro-Japanese. The first part so overwhelmed its hearers in the Assembly that they did not take in the second part. Yet, it was this unnoticed second part and not the sensational first part which represented the policy of the Canadian Government. Further evidence of this is furnished by the speech of the permanent Canadian advisory officer at Geneva, delivered some two months later before the Assembly. This speech of Dr. Riddell's, the text of which had been cabled to him from Ottawa, constituted, if one reads between the lines, a virtual retraction by the Canadian government of what Mr. Cahan had said. Thus Canada has once more returned to that traditional policy in Far Eastern affairs which is dictated by her position on the North American continent.

The strain put upon the relations between Canada and the United Kingdom because of the divergence of policy between the governments of the United States and the United Kingdom on the Sino-Japanese dispute has not yet had time to show its full effects. It may be that Sir John Simon has thrown Canada into the arms of the United States, as Professor Arnold Toynbee asserted at Chatham House in February last year. Be that as it may, the events of the last two years have shown how difficult it is for Canada and the United Kingdom to co-operate on foreign policy in matters concerning the Far East, because of the fact that the foreign policy of the United Kingdom is at present dominated by European considerations, whereas the interests of Canada will in future be bound up more closely with Far Eastern than with European developments. But only a few Canadians are at present giving any consideration to the effect of Far Eastern affairs on Canada's future relations with the United Kingdom. Most of us are fervent believers in the doctrine of *solvitur ambulando*.

Canada.

May, 1933.

AUSTRALIA

I. THE REFORM OF THE LEGISLATIVE COUNCIL IN NEW SOUTH WALES

BY the constitution of New South Wales it is provided that the Legislative Council shall not be abolished, nor can its constitutional powers be altered, except in certain immaterial respects, unless the Bill intended to bring about the abolition or alteration has been approved by a majority of the electors after having been passed by both Houses of the Legislature, and by the same section the requirement of a referendum is made to apply to any Bill for the repeal or amendment of this section. This section was introduced into the State constitution by amendment in 1929, and its validity has since been upheld by majorities of the Supreme Court of the State and of the High Court and by the Privy Council. Bills for the abolition of the Legislative Council and for the repeal of this section were passed by both Houses under the Lang Government, but as they were not submitted to a referendum they were of no effect.

A Bill to alter the constitution and powers of the Council was passed through both Houses by the Stevens Government, and is to be submitted to a referendum on May 8. The Bill provides for the establishment of a House of sixty members and for a system of indirect election. Any person entitled to vote at a parliamentary election may be a candidate, but the only electors to the reconstituted Council are to be the members of the House of Assembly and of the Legislative Council of the State, and they alone will be entitled to nominate candidates for election. At the election the two Houses will vote as one constituency with separate polling places, and the voting will be on the proportional system. At the first election it will be necessary to elect sixty members, but at subsequent elections, fifteen only. Of the sixty first elected the fifteen who obtain the highest number of votes will retain their

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seats for twelve years, the second fifteen for nine years, the third for six and the last fifteen for three years, the period of the life of the Legislative Assembly.

The reconstituted Council can amend or reject all Bills except the annual appropriation Bills. If it delays an appropriation Bill for more than one month after it has passed the Assembly the Bill may be presented for the Royal Assent, but if the Bill contains provisions which do not properly belong to an appropriation Bill they may subsequently be declared invalid by the Court. With the exception mentioned, the historic distinction between money Bills and ordinary Bills is not maintained.

The Council will have power to amend or reject all Bills other than appropriation Bills, but only for a limited time. If the Legislative Assembly persists in its support of the amended or rejected Bill, and negotiations, either in the form of conferences between the Houses or through managers, prove fruitless, the Government, after an interval of seven months from the first rejection, may submit the rejected Bill to a referendum to be held either at a general election or at some earlier date. If at this referendum the Bill is approved by a majority of the electors, it may become law without the assent of the Legislative Council.

The section of the constitution quoted above provides that "the Bill" must be submitted to the electors. It follows that at the referendum the electors will not vote on the abolition of the Council, nor will they be offered a choice between different forms of franchise, or differently constituted electorates. The only choice will be between the Council as proposed in the Bill and the continuance of the existing nominee system.

The critics of the Bill may be divided into three classes, those who claim that there should be no second Chamber, those who maintain that the nominee system should be preserved, though with some modification, and a third class who favour a directly elective Council, though without detailed exposition of its franchise or constituencies.

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The present scheme was not adopted until after a thorough examination of possible alternatives. It was suggested by the Bryce report, and it is thought to have fewer disadvantages than any of its rivals. A franchise based on age or property might not have been acceptable to those electors who would be asked to disfranchise themselves. Constituencies made up of a number of State or Federal electorates would have imposed great expense on candidates, would almost certainly have involved some form of payment of members by the State and would have increased the power of the party machine. The conditions essential for the satisfactory working of the nominee system had ceased to exist. One of the chief advantages claimed for that system was that it offered an opportunity for parliamentary service to men of experience and ability who could not, or would not, take part in a general election with its expensive preliminaries. But party spirit has been so far developed in New South Wales that Ministers, when advising the Governor, are bound to place obedience to the Whips before these other qualities. Again, in former times, the position of a Governor was such that he could resist an attempt to swamp the Council unless it could be shown him that he was resisting a mandate of the electors. To-day, it is at least doubtful how far a Governor could or would resist the demands of his Ministers, however arbitrary, provided only that they had a majority of one in the elected House. The result is that a Governor must either treat the Council as if it had no power to restrain legislation, or expose himself to the charge of partisanship. The continuance of the nominee system might suggest a means of destroying the Council by a *reductio ad absurdum*; it can no longer provide a House which will protect the electorate either against itself or against its leaders.

The powers of the reconstituted Council, though limited, will be very considerable. It cannot finally prevent the passage into law of any measure which is approved by the considered judgment of a majority of the electors, but

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it can delay the enactment of any proposed law, and it can force a Government to submit any of its proposals, other than those for current expenditure, to the expensive process of a referendum. It is not to be anticipated that this power will be used indiscriminately. The present nominee Council has almost invariably taken the view that it is its duty to pass legislation which is backed by a clear electoral mandate, and the new Council will, in all probability, do the same. But the new Council will be in a position to act without the fear of being swamped, and it may be expected to exercise its powers to the full if it believes that the Government of the day has lost the confidence of a majority of the electors.

The most novel feature of the Bill is the introduction of the referendum as a means of settling differences between the two Houses. In the constitution of the Commonwealth alterations can be made only if approved by a majority of the electors voting at a referendum, and by a majority of the States. In the States the referendum has been used as an occasional device to relieve Parliament, or Ministers, of responsibility, but hitherto it has never been regarded as a normal method of settling differences between the two branches of the legislature. In those States in which the Upper Houses are elected the only method is by conference. In New South Wales, which at present is the only State with a nominee Council, a government which finds itself in a minority must either ask, or threaten to ask, the Governor for new appointments, or endeavour to obtain the moral authority of an express mandate at a general election.

The referendum has, its supporters claim, unquestionable advantages over any other alternative. It places the amended constitution on a democratic foundation. The new Council can reject measures brought forward by the Government, but it cannot prevent any change being made if the electors, after an opportunity for full consideration, desire it, and if the Government is willing to risk invoking

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their decision. It will have power to protect the people against a government which infringes its electoral pledges, but it cannot protect a minority against a majority.

Another novel feature of the Bill is that it gives a Minister who holds a seat in the House of Assembly the right to address the Council on a Bill of which he has charge, a feature which was once proposed for the Commonwealth Senate, but has not hitherto been adopted.

A third feature, as already mentioned, is that the reformed constitution, except in the case of appropriation Bills, abolishes the traditional distinction between money Bills and ordinary Bills. In some of the Australian States the Upper House is given by statute certain powers of amending money Bills. In the proposed new constitution it is recognised that a Bill, nominally imposing taxation, may be a means of bringing about fundamental social changes, and the distinction is abolished, so that the very difficult problem of interpreting the definition of a money Bill, which is assigned to Mr. Speaker under the Parliament Act in Great Britain, is avoided.

The proposal will meet with formidable opposition, for which some of the reasons have already been suggested. The electors will have to approve, or disapprove, of the Bill as a whole, and many will vote "No," because they do not understand, or do not approve of, one or more of its clauses ; others will do so because, although they approve of the reform of the Council, they prefer a popular election on a restricted franchise. But the two main arguments of the Opposition are that there should be no second Chamber at all, and that under the proposed system of election, as the Houses are at present constituted, a majority in opposition to Labour is assured for some years to come. The abolition of the Council is advocated by both branches of the Labour party in New South Wales, and has twice been attempted by Mr. Lang, to be defeated on the first occasion by the secession of some of his pledged supporters, and on the second by the constitutional amendment referred to above.

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It is claimed, possibly without giving sufficient weight to the changes which have taken place in recent years in the rigidity of party discipline and in the relative positions of Parliament and the Executive, that the only democratic form of government is by a single chamber elected on a universal franchise. The second ground of opposition is founded on the size of the Government majority in the House of Assembly. It is claimed that, even under a system of proportional representation, the present Government will be able to insure that its nominees will maintain a majority in the Council for at least nine years, and that no Labour legislation can be passed without being put to a referendum.

The argument appeals to those opponents of Labour who regard politics as a sport, and would have additional force if supporters of the Government could be counted upon to adhere to a party ticket as faithfully as their Labour opponents ; but it can be said for the sponsors of the Bill that they advocated the same system of election when they had no majority, and it remains to be seen whether those who rely on this argument will be converted when they realise that a majority in the Lower House can at any time bring about a referendum on the question whether the Council should be abolished or its constitution altered.

It is scarcely questioned, except by a very few, that the nominee Council has done very valuable work in the past. It has included men of experience, ability and independence, whose services to New South Wales, more particularly in recent years, have been inestimable. It has seldom, if ever, resisted a measure which has been approved at a general election, but it has protected the people against measures which are clearly outside the mandate of the Government, and against a Government which, like the recent Lang Government, seeks to bring about radical changes without popular approval. There can be little doubt, however, that the nominee system has ceased to be practicable. The Council now consists of 122 members. Of these, 22 were nominated on the advice of the present

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Premier, Mr. Stevens, 25 by Mr. Lang when last in office, and 25 by Mr. Lang in his previous term for the express purpose of abolishing the Council. If a Labour Minister were to succeed Mr. Stevens he would probably claim that still more appointments were necessary to enable him to carry his policy into effect.

The Council, as at present constituted, has shown the value of a revising chamber and of independent criticism even when the Government has a majority, and it probably contains more knowledge of the problems of urban and rural industry than any other Parliamentary Assembly in Australia; but the nominee system depends on conditions which no longer exist, and have not existed for some time past. It must give way to an elective system, either to the system of indirect election proposed by the Bill, or to some form of direct election with the disadvantage of adding one more to the troubles of an already harassed electorate. But the effective existence of the Council is not really compatible with the existence of theories of government which would convert Parliament into a machine for registering the decisions of a dictatorship constituted either by the Executive or by an outside organisation which controls the Executive.*

II. THE POLITICAL CHRONICLE

APART from the Test Matches, with their rather extravagant reverberations, and from some important decisions made at the Loan Council in February, the quarter under review has been one of preparation rather than one of achievement. Forces have been shaping themselves for a new phase in Australian politics. The last phase was dominated by the Premiers' Plan of June, 1931, and the Plan will doubtless be the foundation of Australian political life for some time to come. But the country is coming to the end of the first phase of its influence. We are now

* The referendum has now taken place. The figures were: For the Government's Bill, 643,716; against it, 622,774

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nearing the end of the second year of the Plan's operation, and apart from unforeseeable developments it is now possible to say that it has to a considerable extent succeeded in its main objective—to check the drift in governmental finance and to restore budgetary equilibrium. It is out of this success of the Plan that the policies and objectives of the next phase in Australian politics will grow; their partially obscure beginnings have been discernible in the period now under review.

On the one hand, the Labour party, disrupted by the Plan, has been seeking some fresh basis of unity. Three Labour Ministries accepted the Plan—Mr. Scullin's in the Commonwealth, Mr. Hogan's in Victoria, and Mr. Hill's in South Australia. All of them were vigorously assailed, both in Parliament and in the party organisation outside, as having betrayed Labour principles by imposing, in return for a reduction of interest rates on the internal public debt, salary and wage reductions throughout the public services. In some cases, members who had supported the Plan have actually been expelled from the party. In Victoria, unity was achieved by "dropping" the two leaders—Messrs. Hogan and Jones—who refused to abandon the Plan in preparation for the State elections last May. Mr. Hill, as his own State elections approached, found the Labour party organisations outside Parliament so hostile that he was fain to approach the Liberal Opposition some few months ago with offers of a coalition; but this was repudiated by his own supporters in Parliament, and he was fortunate to be able to beat a strategic retreat to the Agent-Generalship for South Australia in London. His party, under the leadership of Mr. Richards, is now going to the country in support of the Plan, but has been quite unable to consolidate on this basis the Labour forces in the constituencies. In Queensland the Labour Government in office also supports the Plan, though with some modifications and to the accompaniment of a good deal of criticism outside Parliament. In the Commonwealth Parliament

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Mr. Scullin's diminutive band appears to be still evading the issue ; but otherwise all the Labour Oppositions are now agreed in denouncing that part of the Plan which provides for reductions in public service salaries and wages and in social services. Indeed, the Labour party organisations in the constituencies have been so hostile to this part of the Plan that its acceptance by any section of the party can only be temporary and precarious.

It is not merely along these purely negative lines, however, that the Labour party is seeking unity. The proper and just way to balance budgets and banish unemployment is not, says Mr. Scullin, to reduce salaries and wages and pensions, because that only reduces the spending power of the masses ; it is to restore the price level of 1929 by the provision of credit and to keep out imports. He claims that when he was in office himself he did keep out imports ; that but for the Senate he would have raised the price level too by increasing the fiduciary note issue ; and that even then the same result could have been reached but for the "selfish" and "greedy" and "restrictive" policy of the banks. In vain the banks point to the assistance rendered by them in providing gold and foreign exchange reserves for meeting external obligations, and the great extension of credit represented by the issue, under the authority of the Commonwealth Bank, of Treasury bills for the internal floating debt of £52,000,000. "You might have done ever so much more," is the reply. A return to the Scullin-Theodore policy of 1930 thus becomes the starting point for Labour's new policies. To begin with, banking and credit must be nationalised ("socialised" is the current term). And since imports must be reduced, and the Ottawa agreements, if duly implemented, must necessarily involve larger imports from Great Britain, the Ottawa agreements must be opposed too. Here are the issues which are being formulated for the next Commonwealth elections, still over eighteen months ahead—the "socialisation of credit" and the Ottawa agreements.

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The strongly urban Labour organisations in New South Wales and Victoria (particularly the former) have swung still further to the left. This was one of the inevitable results of the downfall of the party in both Commonwealth and State elections. In their defeat they have been flung back once more on the things the party stands for, and researches into the "platform" have resulted in a fresh emphasis on the "socialisation" plank at the recent summer conferences. Socialisation of industry as a whole was declared to be the objective in both Victoria and New South Wales. Mr. Lang, indeed, was heard in an unfamiliar rôle—begging a metropolitan conference in Sydney not to adopt wild resolutions but to concentrate for the present on one moderate objective alone—the socialisation of credit. This plan was presumably put forward as a basis on which some unity might be restored within the party. But the conference in Sydney swept it aside, and declared uncompromisingly for socialisation entire, though this declaration is not binding on the whole movement, and may even be revised at a forthcoming State conference. Socialisation is not—for some years at any rate—an election-winning programme, and it does not seem very likely to make much of an appeal to primary producers. But a party which declares for an idea is a party to be watched.

The non-Labour parties—the "parties of resistance"—cannot sum up their future in any simple and attractive slogan to compare with "socialisation," and the very success of the Premiers' Plan really raises serious problems for them. For it tends to induce a too-confident belief that Australia's recovery is now assured, and that the country has "said good-bye to depression"—with the inference, of course, that further talk of economies and reductions and stringency and effort is all rather tiresome and unnecessary. For this reason the repetition in February of the now familiar conflict between the Loan Council's desire on the one hand to get from the Common-

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wealth Bank further credits to finance public works for the relief of unemployment, and the Bank's desire on the other to prevent the continuance of the period of treasury bill finance, has had a useful effect on the public mind. When the Loan Council met, the Bank gave way, as before, and agreed to make £4 million available for works in the current year. But the Council for its part agreed to finance loan works during the coming year by means of public loans only, and to apply to the funding of the floating debt any surplus moneys raised. This agreement will, in the present state of the market, impose some check on loan expenditure. So far, too, as concerns expenditure from revenue, the figures supplied to the Council showed that the estimated deficits for the current year are actually below those provided for in the Plan. This represents a really remarkable change in the financial position of the governments, and offers substantial hope that, with the continuance of good seasons, budgets will be balanced by June 30, 1934, as originally contemplated in the Plan.

The non-Labour parties are pledged to attempt the restoration of prosperity within the framework of existing institutions, and they will get the credit for a notable improvement in business conditions within recent months. That improvement has been based partly on the way in which Australian monetary policy has sustained the internal price level, and partly on the bounty of Nature, which through successive good seasons throughout the crisis has enabled the producers, with hard work, to maintain and even increase the volume of exports.

This maintenance of the volume of exports has in fact preserved Australia from default on her overseas debts. But it gives rise to two exceedingly pressing problems. One is the maintenance, and if possible the extension, of markets abroad. Hence the Ottawa agreements are a vital part of the present Commonwealth Government's policy. (But the Ottawa agreements themselves in turn raise further problems for the Commonwealth Govern-

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ment, because the protectionist forces within the United Australia party are strong enough seriously to threaten its unity if the implementing of the Australian obligations under the agreements appears to sacrifice Australian manufacturing interests too much. The real fight over the Ottawa agreements has in fact still to come in the Commonwealth Parliament, and is due to begin in the new session in March.) The other problem affecting the volume of exports is climatic. A bad season or two is by no means beyond the range of present possibility, and bad seasons would attack Australia's present stability at its very foundation. Indeed, even the present position of Australian primary industry is such as to give continued cause for anxiety. Prices remain low, or even fall lower; there has been a drastic decline in the price of butter, resulting in attempts to persuade the producers to reduce by 6 per cent. the amount to be exported in the ensuing year. These factors make the Commonwealth Government very anxious to lighten as soon as possible the demands made upon the export surplus for service of the overseas debt. The satisfactory progress of the Premiers' Plan affords favourable conditions, at this end, for conversion operations. It may be added that a reduction of overseas interest should, if present prices continue, make possible a higher level of imports, and so should in effect increase the Australian market for British goods.

Both the Labour Government in South Australia and the United Australia party Government in Western Australia are to face the electors on April 8.* Perhaps more important than the actual result of either election is the State referendum to be held in conjunction with the Western Australian election on the secession issue. The result of the poll will be known before these pages are read,

* The results of the elections were as follows:—*South Australia*: Liberal and Country parties, 28; Labour party, 10; Independents, 4 (four returns not included). *Western Australia*: Nationalist party, 8; Country party, 12; Labour party, 30.

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but it may perhaps be useful to include here some discussion of the issues in the secession campaign. The electors are to be asked two questions :

(1) Are you in favour of the State of Western Australia withdrawing from the Commonwealth ?

(2) Are you in favour of a convention of representatives of equal number from each of the Australian States being summoned for the purpose of proposing such alterations in the constitution of the Commonwealth as may appear to such convention to be necessary ?

The better opinion among lawyers appears to be that even a unanimous affirmative answer could not in either case have any legal effect. Some leaders of the secessionist movement in the west profess the hope that, while a vote in favour of secession would not suffice to amend the Commonwealth constitution, nevertheless a vote sufficiently strong would induce the Imperial Parliament to exercise its paramount legislative power and sever Western Australia from the Commonwealth by an Imperial Act, regardless of the wishes of the Commonwealth and of the other States. There appears to be no foundation whatever for such a hope. Nevertheless, a strong affirmative vote, on the secession question at any rate, would be a more important thing than is commonly supposed in the eastern States, where the whole campaign has been generally either ignored, or too summarily dismissed as mere disgruntled vapouring.

The fact that the movement is supported by Sir James Mitchell, the present Premier—though he pushed secession into the background in his recent policy speech—and by other prominent citizens of the State, including Sir Hal Colebatch, the new Agent-General, is sufficient reason for paying some serious attention to the campaign. There are indeed hot-heads in the west who declare that if Western Australia cannot withdraw legally, she will withdraw illegally. Such declarations may be discounted. The overseas investor need scarcely fear for the stability of constitutional government in Australia, even if an affirmative vote is given in answer to both questions on April 8. Nevertheless an affirmative vote (which appears to be likely) is bound to have

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important consequences. The secession campaign, in the minds of many Western Australians, is not so much a means of breaking up the Commonwealth as a means of expressing a widespread feeling in the State that federation has produced unfair results in Western Australia, and that the State has grievances which have become intolerable. In other words, the secession campaign may fairly be regarded as an instrument for forcing on the notice of the eastern States some important aspects of federal policy—in particular, the incidence of the tariff and the Navigation Act and the continuous expansion of Commonwealth expenditure. Hence the second question propounded to the electors. An overwhelming vote in favour of a convention for revising the constitution may probably be expected; indeed, the Prime Minister of the Commonwealth has promised in advance to summon such a convention. When the convention meets, Western Australia will almost certainly have the support both of Tasmania and of South Australia and possibly of Queensland as well. The secession issue may thus from one point of view be regarded as to some extent unreal, even in Western Australia. But the energy with which the campaign is being waged in the west presages a very serious attempt in the future to compel the reconsideration of some of the main lines of Australian policy.*

Public opinion in Australia has been extraordinarily confused and not very vocal about the developments in the Far East. The general attitude of the Government has been that it has been in close touch with the British Government, that it has supported the British Government in the

* The result of the secession referendum was as follows: A majority of nearly two to one gave an affirmative reply to the first question in favour of secession from the Commonwealth. The second question was answered in the negative by 119,131 votes to 88,175 against the holding of a convention. The Labour party, which is against secession, won the Western Australian election, as a previous note shows, by a majority of ten seats. (*The Times*, April 10 and May 4, 1933.)

The disabilities of the least-populous States have already been discussed in THE ROUND TABLE: Western Australia's in No. 66, March, 1927; South Australia's in No. 67, June, 1927; Tasmania's in No. 71, June, 1928.

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efforts it was making for conciliation, and that in general the less said in public the better. The Government's policy itself has no doubt been a sound one, and the fact that Mr. Bruce is in London as Resident Minister has afforded the best possible conditions for effective consultation between the two Governments. There was a great deal to be said for the view, expressed by the Minister of External Affairs during the progress of the Shanghai attack, that it was undesirable to discuss publicly in Australia the possibilities of further aggression by Japan in the East. It had been said in the House of Commons that "Japanese aggression in the Far East might become a grave danger to Australia." The Minister promptly deprecated the discussion taking such a turn. It is in fact precisely out of such discussions that international ill-will and suspicion are often manufactured. But it is significant of the present state of Australian opinion on external affairs, that in no ministerial statement since the Sino-Japanese dispute began has there been any discussion either of the possible lines of action prescribed in, or permissible under, the new system of international engagements contracted since the war, and still less discussion of the interest that the Australian people have in the maintenance of a stable international order in the Pacific. The public has become vaguely uneasy, but has been content to follow its cricket matches, and leave *Weltpolitik* to the strong.

Australia.

March 29, 1933.

SOUTH AFRICA

I. THE HERTZOG-SMUTS ALLIANCE

Ex Africa semper aliquid novi, which may be translated to-day, "South Africa always makes good copy."

Last quarter's record of the course of political events in the Union ended on a note of interrogation. Was there to be a coalition of some kind strong enough to handle firmly the problems that were pressing on the country, or was there to be a continuation of the drift towards a furious general election some time before June 1934, in which the Afrikaner folk were to be called upon to close ranks against the intruding Englishmen and the multitudinous Bantu?

The position in the middle of January was that the Nationalist ministry with a remnant of Labour support had a reduced but still working majority in Parliament. It had, however, been weakened by the loss of prestige that had followed its sudden and unwilling departure from the gold standard at Christmas time, by recent South African party successes at parliamentary and provincial bye-elections, and by a growing realisation of the fact that it could not win the coming elections single-handed. The South African party had polled some 30,000 votes more than it had done at the last election in 1929, and, as General Hertzog has since frankly confessed, most of the Labour men and nearly all the floating electorate that had put the Nationalists into office then and in 1924 were now hostile to them. Finally, the ministry had been shaken by the descent of Mr. Tielman Roos from the appellate bench into the political arena and the rallying of more than one Nationalist member to his coalition banner.

Mr. Roos had first tried to arrange a coalition with the South African party. He had proposed a cabinet of five Nationalists, five South African party men, and one Labourite, under a Nationalist premier, obviously himself.

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The South African party in turn had suggested seven of their own number and four Nationalists, with Mr. Roos as second-in-command and, equally obviously, General Smuts as premier. Mr. Roos had unexpectedly and brusquely broken off *pourparlers* and announced that he would collect followers whence he could.

As a result perhaps of a rude reception by excited Nationalists at some of his Free State meetings, Mr. Roos had then threatened to break the Nationalist party and General Hertzog, whom he claimed to have made politically. On the other hand he gave warning that his supporters would not vote for the motion of "No Confidence" which General Smuts was proposing to table.

The scene shifted to Cape Town. General Smuts met with a great popular reception there and prophesied, amid incredulous comment from even friendly newspapers, that there would be a national* government more or less on the British model sooner than most people thought. Mr. Roos had a reception almost as enthusiastic and put forward his vague programme of "no more gold" (which had already been achieved) and "no more racialism" to a crowded gathering in the City Hall.

The Houses assembled in strength on January 20 to face an almost certainly fiery session and a full legislative programme. The first ten days were occupied mainly by General Smuts's motion. It was not formally a motion of "No Confidence," since the Roosites would not vote for that. It was rather a studiously moderate demand for a national government to take the place of a failing ministry which was, willy-nilly, keeping racialism alive by its mere existence, and which was being called upon to reorganise the currency on a non-gold basis after having declared repeatedly that it would never depart from the gold standard.

The Prime Minister, in reply, at once asked for a vote

* Small letters have been used for the "national government" throughout to distinguish it from the National party, commonly called the Nationalists.

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of confidence and explained that he had always meant that his ministry would never go off gold voluntarily, that it had been pushed off, as was indeed the fact, and that it meant to stay in office to minimise the evil effects of that lapse from economic rectitude. As for coalition, he declared roundly that a national government would "drag our people further in the way of dissension and bitterness."

The debate certainly became bitter. Behind that bitterness were those personal differences between leaders which have always counted for too much in South Africa—Nationalist fears of the extreme British wing in Natal and elsewhere, whose influence they probably overrated but which they nevertheless dreaded, and Nationalist suspicion of the money power. That last is a fear which the American Middle West would understand. It has run right through South Africa's politics since diamonds were first discovered about the time of the Franco-German war. The fear had been inflamed by the departure from gold which had been resented as a blow to autarchy and an opportunity for speculators and mine owners to benefit by the exchange and the premium on gold at the expense of the man in the street, or rather the man on the farm. Nationalists said openly that they would see to it that the State got much of these fortuitous gains, and that they were certain that their political opponents would deal with the beneficiaries far too gently.

One Nationalist member, son of an ex-President of the Free State, had already been drummed out of the party. Now another, also a son of an ex-President of the old republic, moved over to the cross-benches amid uproar and insult. But the little group of Roosites, and Dr. Steenkamp, an Independent and a power in diamondiferous and drought-stricken Namaqualand, refused to vote for the motion unless General Smuts came to terms with Mr. Roos.

During the later stages of the debate the Roosite members approached the South African party caucus. They sug-

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gested a cabinet of seven South African party men and four of their own number under the leadership of their champion, or at the very least of one of his men. The South African party caucus, after consideration, rejected the offer. Frankly, it was not good enough. Mr. Roos's past had been stormy and his programme was still vague in the extreme. There was no guarantee that the Roosites could swing enough votes in the House to unseat the ministry. And supposing they were able? What would be the use of a narrow victory that would simply consolidate the Nationalist phalanx and leave it with the feeling that it had been bounced out of office by an alliance of renegades and political foes? That was the consideration which governed all that followed.

On the day following the breakdown of these negotiations General Hertzog got his vote of confidence. Of the 148 members of the House of Assembly, 146 voted, 66 of them for General Smuts's motion and 80 against, including the Roosites, Independents and two Labour men.

Apparently that finished it. But it was not so. During the debates General Smuts had offered to accept General Hertzog as chief of a national ministry, and before the debates were over the whisper had gone round that the leaders of the two big parties were drawing together.

The situation was, however, very confused during the early days of February. Officially the two main parties glared at one another, and other parties began to take shape dimly. The Roosites accused General Smuts of having ruined a promising scheme by his insistence on the premiership, and began to organise a Coalition Union party with the slogan, "Country before Party," and the intention of getting Mr. Roos in as Prime Minister, dealing with national interests in a non-party spirit, and securing the representation of those interests by men specially qualified to handle them. That last stipulation may have been a protest against the domination of Parliament by lawyers. If it was so, it was emphasised by another programme that

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was put forward, this time by a body of business men in Cape Town who sought to mobilise the Chambers of Commerce throughout the Union in favour of a national administration, an end to racialism, and the election of business men irrespective of party.

These two quite separate programmes reflected the widespread popular disgust with existing party feuds and, above all, with the stale and paralysing racial controversy. Meanwhile negotiations were going on behind the scenes between the responsible heads of the two main parties. Perhaps their progress towards an accommodation was hastened by the untimely and universally regretted death of Mr. C. W. Malan, Minister of Railways, and one of General Hertzog's staunchest Cape supporters. Be that as it may, on February 10, to nearly everyone's surprise, the Prime Minister published what was virtually an offer of coalition. Forthwith the construction of cabinets became a popular amusement and a subject for newspaper competitions.

A few days later General Hertzog announced his eight points. The Union must be maintained as a national unit on the basis of the sovereign independence that had been guaranteed to it by the Statute of Westminster; the unitary, as distinct from a federal framework of the constitution, must be preserved; the national flag and equality of language rights must be upheld. Further, agriculture was to be cherished and a "civilised labour policy" pursued; the Joint Select Committee, which had been ruminating over the ministry's Native Bills for the past year or two, must be spurred on so that these measures could be carried speedily, and, lastly, the Union's money values, capital assets and sources of capital must be protected.

Negotiations were undertaken at once on that basis by the "Big Four," the Prime Minister and Mr. Havenga, Minister of Finance and his chief's right-hand man in the cabinet and the Free State, on the one hand and, on the other, General Smuts and Mr. Patrick Duncan, one of the

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few survivors in South Africa of Lord Milner's young men and an ex-Minister. There was little difficulty about most of the points. Everyone took for granted the Statute of Westminster, the flag, and equality of language rights. Neither party could do anything but support civilised, that is in effect white, labour, and agriculture. General Smuts, opponent-in-chief to the federal idea at the National Convention of 1908 which made the Union, could hardly envisage any serious weakening of the unitary constitution. But it was an open secret that there was difficulty over two major points: the relations of the four provinces to the Union, and the Native Bills. On the first head, many of General Smuts's followers, and the Natal men in particular, were set upon something much nearer federation than anything that exists at present. On the latter, the South African party was notoriously divided, one influential section holding on grimly to all that is still possible of the old Cape Colony's liberal policy towards non-Europeans, the other, probably the majority, holding views differing in nothing from those of the Nationalists.

In the end these two obstacles to co-operation were overcome. The Native Bills were practically shelved. They were "not necessarily to be proceeded with" during the life of the next Parliament. Provincial relations, which mean in essence financial relations, were to be taken out of the hands of the Committee which had for some time past been trying to disentangle them with its hands tied, and were to be reconsidered with a favourable eye to increased local powers "within the framework of the South Africa Act."

Finally, there was to be a cabinet, not as at present of eleven members, but of twelve, six drawn from each of the two main parties, with General Hertzog as premier and General Smuts as deputy-head. The session was to be cut short, the coalition scheme laid before the Nationalist provincial congresses, and, if they approved of it, a general election held in May.

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The South African party caucus accepted the scheme unanimously, but the Nationalist caucus was divided, 41 members voting for the scheme, and the rest, "members who have no feeling for coalition," abstaining. That was a most diplomatic description of the feelings of some of the abstainers. From the moment that the Prime Minister published his eight points, Dr. D. F. Malan, leader of the Cape Nationalists and one of the ablest men in the Cabinet, had openly displayed his hostility to the idea of coalition, and another Minister, Mr. A. J. P. Fourie, also a Cape man, had made no secret of his disapproval. Dr. Malan now complained that General Hertzog had not even shown his programme to all his colleagues before it was published, but had gone straight ahead and had then confronted the caucus with the hard choice of accepting his plan or rejecting his leadership.

Suspicion breeds suspicion. Dr. Malan's condemnation of coalition was answered in kind from the other political pole. Part of the Natal press warned its readers of the Greeks and the gifts they bore. But, presently, Dr. Malan modified his views sufficiently to declare his readiness to support a national government, but "only as far as it violates or ignores no principle of the National party." He called upon his followers to guard "the party and national interests . . . during the period of danger," which, it is not uncharitable to believe, meant the duration of the coalition. At this stage, on March 2, Parliament adjourned and Mr. Roos announced that now that the two generals had after all taken his advice, he would retire from politics till he was wanted again.

Three of the Nationalist provincial congresses, in the Free State, the Transvaal and Natal, adopted the scheme unanimously. Not so the Cape Congress. There, Dr. Malan got most of what he wanted to safeguard the pure doctrines of nationalism. The Congress accepted the scheme without approving of it, and pledged Cape Nationalists, whether they were pro- or anti-coalitionists,

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to support the coming ministry so long as it upheld National party principles. It also accepted General Hertzog's promise to recognise even anti-coalitionists as national party candidates and to leave them free to exercise "the usual rights of a member to withhold support."

That lukewarm resolution has caused, and is causing, heart-searchings. The coming election is to be a coupon election. The agreement between the two big parties, General Hertzog has been careful to explain, is not a coalition but a pact similar to the Nationalist-Labour Pact which has kept him in office since 1924. The South African party and the National party are respectively to hold the seats they hold at present, subject to such casualties as may be caused in either camp by the raids of Roosites and Independents and Labour men. In many constituencies the election is being decided at the nominations, which in some cases have been fought with all the vigour of American primaries. But the Premier's arrangement with the Cape Congress means that Malanites are to get the Pact coupon and then be free to go against the ministry without being morally bound to face their electors. It may work out better than it sounds. After all, faith and hope are not to be excluded from politics, and it must always be remembered that a straight South African party victory at the polls would simply have driven the Nationalists in upon themselves. But there is no denying that the arrangement may work grievous harm to the new ministry. Already there are bitter complaints from many quarters that electors are being obliged to vote for, or at the very least to abstain from voting against, Malanites in whom they have not the slightest confidence. Meanwhile Independent candidates have come forward in such numbers that the two generals have had to issue an appeal to their followers to vote on the Pact ticket, irrespective of persons; seven devolutionists (home rulers) have been nominated in Natal, and Mr. Roos is forming a United Coalition party to force real amalgamation on the Pact, which has, in his eyes, been moribund since birth. Roosites are to contest most of

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the seats in the Transvaal, where their leader was for many years Nationalist chief.

It may be that, as his opponents assert, General Hertzog has not shrunk from autocratic methods, that he has bidden his followers "take this or lose me." But that is only what most South African Presidents used to do in times of crisis, and the fact remains that the vast majority of his followers have taken what he offered. As for General Smuts, his party had given him *carte blanche* in advance. And when all is said and done, this national ministry springs from the popular will.

Democracy has its faults, God wot, but its defenders can take comfort from the thought that on great occasions the popular will does get itself expressed somehow and often wills the necessary thing. There is certainly need now for a national government. Neither of the two generals has minced his words on that score. The Prime Minister has explained to a nervous Free State audience in his own constituency that, apart from all other considerations, the economic situation was so bad that united action was essential, and that to have rejected General Smuts's overtures would have driven the Afrikander South African party men away from their own flesh and blood finally, and would have swung the whole of the party over to an extreme of opposition to nationalism. General Smuts, speaking at Stellenbosch University, a perennial spring of Nationalist opinion, declared that politics were becoming a source of danger to the country and that, unless there were to be more tolerance and compromise, white South Africa would be heading straight for national suicide. He called for a united effort to set the Union's house in order and pointed the lesson from an appalling report on the poor whites that has been issued recently.* Next day our newspapers recorded the collapse of credit in the United States.

Three days later General Smuts repeated his warning in Cape Town. The new ministry would ask for "a doctor's

* See page 605.

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mandate" in the economic sphere. "Within a few months," he concluded, "events may occur in the outer world which will make South Africa bless the day that it had a united Government at the helm."* Altogether reminiscent of the late President Steyn's warning to the National Convention that political union must be achieved before war broke out between England and Germany.

It all comes down to this. A Pact ministry, even though it may not endure for long, is of its nature independent enough to carry unpopular but necessary measures; all it needs is courage. There is one measure that no one has suggested but which is perhaps worth thinking about, for it would go far to cure some of South Africa's political ills. That measure is the institution of substantial educational and economic qualifications for the franchise irrespective of colour, creed or sex. That would do away with the fear of the rapidly growing non-European electorate that haunts so many folk, and reduce the political power of the increasing army of poor whites that perturbs others. There are good South African precedents for it. Away back in the eighteen-forties the Natal republicans proposed such a franchise just after their country had been annexed by Great Britain. Rhodes and Hofmeyr, a pact if ever there was one, actually effected the change in the Cape Colony in 1892 with general approval and good results. Perhaps, also, there is something to be said for raising the age limit to twenty-five.

All that, however, is pure speculation. We shall see what we shall see. The elections are to take place in May and Parliament is to meet in the last week of that month. Meanwhile the national ministry has been in the saddle since March 31. General J. B. M. Hertzog is Prime Minister and Minister for External Affairs; General J. C. Smuts is second in command and Minister of Justice. Inevitably and rightly, Mr. N. C. Havenga is once more Minister of Finance, Mr. P. Duncan takes Mines, Mr.

* As the mail closes, the news has reached South Africa that the United States has abandoned the gold standard (April 20, 1933).

The Work of the Session

P. G. W. Grobler, Native Affairs, and Mr. O. Pirow, Railways and Harbours, to which Defence is appropriately joined; General J. C. G. Kemp is Minister of Agriculture; Mr. A. P. J. Fourie, his opposition to co-operation overcome, is Minister of Labour, and Colonel Deneys Reitz, son of ex-President Reitz, of the Free State, is Minister of Lands; Mr. J. H. Hofmeyr, nephew of the old Cape leader, an ex-Rhodes scholar and sometime Administrator of the Transvaal, takes charge of Interior, Education and Public Health; Senator C. F. Clarkson, of Natal, takes Posts, Telegraphs and Public Works, and Mr. R. Stuttaford, who embodies the hopes of the business community, is Minister without portfolio.

It is an interesting combination and looks like being a strong one if it can win the necessary public support. Nine of the twelve have held office under the Crown before, some of them for long periods, and those who are new to the work are good men. For the first time since Union the traditional respect for provincial susceptibilities has been in great measure disregarded. Seven of the twelve are Transvaalers; the Cape and the Free State have only two representatives apiece and Natal one. But this departure from the provincial basis is sound enough in an avowedly national administration of a legislative union and, since the Rand gold mines are at present carrying South Africa on their backs, it is only fitting that Transvaalers should call the tune.

II. THE WORK OF THE SESSION

THE prolonged political crisis has tended to overshadow the work that Parliament did during its curtailed session. Finance naturally loomed large. At the New Year money was more plentiful than it had been at any time since England went off gold; in fact, people did not know what to do with it. Much of it went into town property, a good deal into government stocks, a great deal into gold shares while the Kaffir boom of January lasted;

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but not much went into industry and hardly any into farm bonds.

Mr. Havenga at once promised the civil service restitution of the cuts that had been made in their salaries a year before and abolished the surcharge of 20 per cent. on ocean-freight rates on imported goods. But he has continued to pay the export subsidies on the plea that, in spite of the depreciation of our pound to sterling levels, prices have not yet risen high enough to rescue primary producers. On the other hand, he resisted great pressure from all sides of the House to reduce interest on agricultural bonds or to allow the Land Bank to depart from business principles. The most he would agree to was that the Land Bank should increase the amount of specific advances beyond the statutory level.

The Ottawa agreements were implemented readily, and a short Bill was also carried which gave the Reserve Bank power to make such investments as would prevent our paper pound from drifting too far away from sterling. The career of a highly controversial Liquor Amendment Bill was cut short with the session, but useful measures were passed dealing with industrial conciliation, weights and measures, fuel research and the Veterinary Acts. Finally, another Bill, which in the early fiery days of the session caused some trouble, was passed at last amicably enough. This was a Bill permitting the Potchefstroom University College, at which Calvinist views predominate, to insert the word "Christian" into its title. The Opposition would only agree to that on condition that the "conscience clause," which forbids institutions that draw State grants to penalise staff or students for their religious beliefs, was specially safeguarded. So it was done and the session ended. Not an exciting record of legislation perhaps, but sustaining . . . "boiled beef with plenty of carrots."

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April 19, 1933.

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NEW ZEALAND IN THE DEPRESSION

RECENT New Zealand history is of general interest as an illustration of the effects of the world depression upon countries whose economic life depends mainly upon agricultural and pastoral production. Optimists who insist that, compared with other countries, New Zealand is still relatively well off no doubt have, however vaguely, in their minds the fact that our average standard of production is still comparatively high, but if the effects of the depression are measured by the difference between the standards of to-day and the standards of prosperity, New Zealand must be included among the countries which have suffered most severely.

There is much truth in the commonly expressed view that New Zealand's whole prosperity is wrapped up with the prosperity of her so-called primary industries. Partly on account of her small size and the rather narrow range of her natural resources, a high proportion, probably as much as 40 per cent., of her aggregate production is exported, and the pastoral industries, of which wool, frozen meat, butter and cheese are the most important, have in every year since 1919 accounted for more than 91 per cent. of her total exports. New Zealand public opinion indeed exaggerates the significance of exports, tending to overlook the fact that more than half her national income is both produced and consumed at home. Sir James Parr, for example, the leader of the Legislative Council, declared early this year that "last year the farmers of New Zealand brought in a cheque of £36 million to the country for the sale of products in Britain. In the final result all New Zealand lived on this cheque of £36 million for a year." But fallacious as such statements are, New Zealand's dependence on the outside world is a fundamental fact in her economic life.

New Zealand in the Depression

I. SYMPTOMS AND CAUSES

THE statistical indicators of depression in New Zealand are similar to those recorded elsewhere. The export price index number had fallen at the end of 1931 by 45 per cent. as compared with 1929, and during 1932 it fell another 8 per cent. The aggregate value of exports has fallen considerably, and imports had to be reduced to at least a corresponding degree. An expert report has estimated the national income in 1928-9 at £150 million, in 1930-1 at £120 million and in 1931-2 at £110 million, with prospects of still further decline. The results of falling prices, deducible from general currency theory, have shown themselves on a considerable scale. The burden of debts in many cases became intolerable; the burden of fixed charges diminished or destroyed profits, so that production was drastically reduced in many industries, and the number of unemployed men rapidly increased, until during 1932 the number of men on the unemployment register of the Labour Department often exceeded 56,000 (out of a population of 1½ million). This figure excluded about 16,000 men in full-time employment whose remuneration came, either wholly or partly, from the funds of the Unemployment Board. The share price index fell 32 per cent. between 1926 and the end of 1932, and government budgets have shown considerable deficits which have had to be met by drawing upon reserves.

In addition to the general causes of depression, New Zealand has also been affected by the two main sets of special influences which, in greater or less degree, have been operative in all "new" countries. The first is the long-established practice of borrowing capital abroad, in the case of New Zealand mainly in Great Britain. The gross indebtedness of the national government in March 1930 was £267 million, of which more than half had been borrowed in London, and though about one quarter of the total was

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incurred in connection with the great war, the greater part had been borrowed for public works, notably railways, roads, hydro-electric schemes and land settlement, as well as more than £30 million re-lent by the Government to farmers and workers. The net indebtedness of local governing bodies exceeded £61 million, of which more than one third had been borrowed outside New Zealand, mainly also for various public utilities. Since 1920 the National Debt had increased by about £66 million, with a further increase between 1930 and 1932 of more than £14 million, and the local body debt had more than doubled. The policy of borrowing abroad reacted on general economic organisation, first by keying the economic life of the country, so to speak, to a distribution of labour between different kinds of work which could be maintained only so long as external loans of considerable magnitude were available every year, and secondly, by necessitating a volume of exports to cover interest payments which, if for any reason prices fell, it might be difficult to maintain.

In her external borrowing New Zealand has for the most part avoided the extravagances so justly condemned by Sir Arthur Salter. The practice of borrowing abroad is not in itself vicious, and those who talk about its complete abandonment have an insufficient appreciation of the effects upon production standards which such a check on the free movement of capital would impose. Apart from the other more fundamental causes of the depression, it is widely thought that the payment of interest required by the debt would have imposed an intolerable burden. Nevertheless the borrowing powers of public bodies have probably sometimes been abused, and some of the capital raised was wasted. The development of railways, roads and harbours, for example, was pushed forward simultaneously at a rate which would have been excessive even if continuous prosperity had been assured. Nor was over-capitalisation confined to government work. Farming and its adjuncts had been over-

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capitalised during the boom which followed the war, and though the effects of this had to some extent disappeared by 1929, enough remained to make serious complications in the adjustment of falling price-levels which then became necessary. Government control of public utilities, moreover, desirable and necessary as it was from other points of view, made the burden of depression more intractable than in countries where a bad year for the railways, for example, meant merely low dividends for railway shareholders. A bad year for the New Zealand railways did not involve any reduction in the interest payable to those who had provided the original capital. The interest on railway capital was a fixed charge, like interest on other government borrowings, and any deficit had to be made good by some other means, often with far-reaching effects on the whole economic structure. Similarly, though the policy of acting as middleman for advances to farmers had stimulated New Zealand's development, it too brought special difficulties in times of depression. A farmer overburdened by a private debt could sometimes make an arrangement with his creditor, which would ease the burden, or at the worst his title would be forfeited, his debt extinguished, and his creditor have the responsibility of managing his farm. No such arrangement, however, was possible between farmers who had borrowed money through the Advances to Settlers Department and the English investor who had advanced the money, and if default led to the abandonment of a farm, the liability for interest still had to be met somehow.

The full significance of the second special set of influences, the striking improvements which have occurred everywhere in the technique of agricultural and pastoral production, is less widely understood. The application of science to agriculture has been probably the most important influence in recent years in raising average production levels everywhere. New Zealand has played a worthy part in this movement. There are still many New Zealand farmers whose efficiency falls below the 100 per cent. level, but on

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the whole the efficiency of New Zealand farming, of the production per head of the farming population, has considerably increased in recent years. It may be argued that the most important event in New Zealand twentieth-century history has been the rapid extension of the use of artificial fertilisers, especially in dairying. This development more than doubled New Zealand's butter exports between 1921 and 1930, while exports of cheese increased by 32 per cent. During this period the estimated annual yield per cow, measured in butter-fat production, increased from 154 to 218 lbs.

Admirable as these improvements were, their inevitable effects upon prices were seldom well understood. Similar changes were going on everywhere, and as the improvement in standards of living, which had taken place especially in the more advanced countries where the rate of population increase was declining, made it unlikely that large additional quantities of food would be purchased at the old prices, a considerable fall in agricultural and pastoral prices might have been anticipated. Far from predicting any such fall, authorities continued to represent to the farmers that there was a practically unlimited market for their produce, so that when prices did fall practically no attention was paid to increased efficiency as an explanation. The case of wheat illustrates the confusion in popular thought. Considerable trouble and expense have been incurred in scientific research for improving the standard of wheat production, but the same government which finances this research also maintains a sliding scale tariff designed to ensure to farmers a stable price for wheat. So far as this aim is realised, the consumer is prevented from enjoying any benefits from scientific research, while the gains for the farmer himself are by no means certain, as the guaranteed price is likely to stimulate further production which cannot be marketed except at a sacrifice.

The inevitable consequences of more efficient primary production in diminishing the relative importance of

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primary industries as sources of employment were equally misunderstood. The so-called drift to the towns was almost universally deplored, and one Minister of Education made it his special mission to give the school curriculum an "agricultural bias" to induce larger numbers of boys to seek employment on the land. The state of mind revealed by these misunderstandings has been a powerful influence in retarding recovery. At a coalition caucus meeting in January, both Mr. Forbes, the Prime Minister, and Mr. Coates (leader of the Reform section of the Coalition party, and now Minister of Finance) were reported to have "emphasised the necessity of maintaining the volume of primary production," and this view, sometimes with the emphatic addendum, "at all costs," is almost universally approved. The question is never seriously considered whether the maintenance of the volume of primary production at its old level may not in itself be an important barrier to recovery.

As always, the burden of the depression was felt most acutely through the increased real value of fixed interest charges. Falling export prices reduced the volume of funds available in London for financing imports and meeting the annual interest claims. As the latter were, by their nature, fixed, the relative contraction of imports had to be greater than the shrinkage in the value of exports. Adjustments of this kind were not easy and pressure on the London exchange rate began early. New Zealand abandoned the gold standard in the middle of 1929, when the exchange rate began to move upward, until by the end of January, 1931, the New Zealand pound was depreciated 10 per cent. in terms of sterling.

A further consequence of the depression was a check imposed upon the flow of loan funds. Prudent as it was to avoid the creation of new liabilities, and reluctant as investors abroad were to subscribe to new loans, this policy called for a drastic redistribution of the labour supply which could no longer be employed on public works.

Remedial Efforts

This redistribution would at any time have been difficult, and the difficulties were enormously increased by the generally depressed condition of industry. When England abandoned the gold standard, New Zealand currency was kept "tied" to sterling, but even this further relief against the pressure of the downward trend of prices was insufficient to restore equilibrium, and towards the end of 1931 the pressure placed upon the exchange by fixed interest charges was so great that the Government felt itself obliged to control exchange transactions, and for some months New Zealand trade was under a régime comparable to that which has prevailed recently in many European countries. Even when control was removed in the middle of 1932, there was a doubt whether the removal was not to some extent formal, dependent on an implicit understanding that the banks would voluntarily impose control, at least over capital transfers, similar to that which would have been compulsory if the government restrictions had remained.

II. REMEDIAL EFFORTS

DURING 1931 unemployment increased and the position of the farmers became more difficult. A strong movement developed, under the pressure of farming interests, with the support of the Bank of New South Wales and several academic economists, aiming at further depreciation of the London exchange. Early in 1932 an expert committee recommended an increase in the exchange rate combined with a reduction in fixed charges, interest and rent, of 20 per cent., and in wages and salaries of 10 per cent. The salaries of government servants had already been reduced by 10 per cent. during 1931, and private wage contracts had been widely revised in a similar way. The fundamental problem was interpreted as that of adjusting a level of income and costs in New Zealand, which had lost touch with the falling price levels else-

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where, and the problem was to be solved in part by a reduction of incomes and costs, and in part by an exchange policy to check the downward trend of prices and thereby avoid an even more drastic reduction of money incomes. The Government rejected the suggestion of a higher exchange rate, but adopted with modifications the other recommendations. Civil service salaries were subjected to a second cut, graduated from 5 per cent. to 12½ per cent., and to facilitate similar reductions generally, the Arbitration Court, which for nearly forty years had been a dominating influence in wage policy, was shorn of most of its powers of compulsion. The significance of the Arbitration Court as a factor imposing rigidity upon the industrial structure was often exaggerated by its critics, but it was regarded, however unreasonably, by many farmers as a symbol of the forces which they believed to be massed against them, and when hard times stimulated a general feeling that "something must be done," a government and parliament dominated by farming interests naturally turned against the Arbitration Court. More important was the compulsory reduction of interest and rent by roughly 20 per cent. Machinery was also created for additional relief for financially embarrassed mortgagors. There was an obvious rough justice about such measures which, when wages were falling rapidly, seemed at least an approximation to "equality of sacrifice." But it meant an unprecedented interference with the terms of contracts, and the ultimate effects upon willingness to lend cannot yet be foreseen. The attempt to apply to a wide variety of individual cases the general rules laid down in the Act prescribing these reductions has led to many anomalies for which supplementary legislation has been necessary, and this experience has shown again how difficult it is to stop halfway in government control of the terms of business contracts. The compulsory interest reductions have done nothing to diminish reluctance to risk money in permanent capital investments, and fixed deposits which used to form less

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than 40 per cent. of total bank deposits now amount to between 60 per cent. and 70 per cent. In New Zealand, as in Germany, it often seems that some of the institutions of the capitalist system are in process of being destroyed by people who profess and believe themselves to be its most ardent supporters. It does not follow of course that the destruction of these institutions is a bad thing, but it is always, especially in times of crisis, useful for people to understand what they are doing.

The Depreciation of the Exchange

The pressure of farming interests for a higher exchange rate was resumed later in 1932, but resisted by the Government, Mr. Forbes declaring that exchange was a matter for the banks alone. Most of the banks believed that a change was unnecessary and undesirable, but the Government, desperate for some means of relieving the difficulties of farmers, eventually succumbed on January 20, 1933, to the pressure of the high exchange interests ; the Associated Banks announced that "they had been reluctantly compelled to raise" the London rate to 25 per cent., and the Government promised a guarantee against any loss incurred. Mr. Downie Stewart, the Minister of Finance, who had always been opposed to exchange inflation, resigned, and was succeeded by Mr. Coates, who was believed to be the most powerful influence inside the Cabinet in favour of the new policy. Mr. Forbes declared, in a rather unhappy metaphor, "I consider it my duty to remain on deck, and if necessary, go down with the ship." The changed policy proved at least the falsity of the charge that the Government was controlled by the banks. The position was rather the reverse of this, and it did not escape notice that a policy of interference which would have met with severe condemnation if practised by a Labour Government was by many cheerfully accepted when promulgated by a Ministry of a different colour.

New Zealand, indeed, like most countries to-day, suffers

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from the scarcity of political leaders who combine a wide view of world affairs with a sense for practical politics and an ability to lead, and not merely to echo, popular prejudices. Our leaders have not indeed shirked the difficult and unprecedented tasks which have suddenly confronted them, and have often displayed both courage and patriotism. Unfortunately in the midst of the world crisis these things are not enough. The adjective most commonly used to describe the Prime Minister is "honest." It is his forte to tell the country bluntly how it stands, and not to endeavour to cloak unpleasant realities. But though honesty is not, in his case at least, merely a euphemism to indicate the absence of other more statesman-like qualities, Mr. Forbes's most enthusiastic admirers have never pretended that he had any profound knowledge of financial or political principles in the wide sense. It is not many years since, when in the freedom of opposition he found it convenient to criticise the Government of the day for excessive borrowing, he refused to be fobbed off with any sophistries about changes in the value of money, insisting stoutly that "a pound's a pound." His colleague, Mr. Coates, a former Prime Minister and leader of the Reform section of the Coalition, has much more drive and initiative. The slogan, "the man who gets things done," which was used to win an election for him some years ago, had more truth in it than such slogans usually have, but whether the things which he gets done are wise or well considered is a different question. He is a typical New Zealander in that when once convinced that "something must be done" he is impatient of critics who point out defects in the policy which at the moment is attractive to him, and his critics charge him with undue extravagance. Mr. Downie Stewart has much wider knowledge and insight into political principles, and only a physical disability, a legacy of the war, which would have incapacitated most men, has prevented him from becoming leader of the Reform party. He is nearly alone among members of Par-

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liament in delivering speeches almost entirely free from mere party claptrap. Even in making definite party points, he shows a freshness and originality of mind which places him well above his former ministerial colleagues. Mr. Stewart has been an able politician in balancing opposing interests, in sensing the quarters from which opposition is likely, and taking steps to meet it. It is doubtful, however, if he possesses those very rare qualities which times of unusual difficulty demand from a great leader. He is quite prepared for personal sacrifice where his interpretation of his duty demands it, but his temperament seems better suited to the more negative rôle of critic than to the positive part of a creative statesman. In fact, one is almost inclined to say that he displays in the present crisis, largely, no doubt, in consequence of his physical handicap, defects similar to those which were alleged, perhaps unjustly, to diminish Mr. Asquith's fitness as Prime Minister in time of war.

The high exchange rate met with the approval of most of the farmers, though the most important competitive advantage which dairy farmers might have anticipated disappeared when the Danish exchange rate was also depreciated by practically 25 per cent.; but city interests were almost unanimous in opposition, and the controversy encouraged the unfortunate tendency towards a political cleavage in which town and country interests were ranged on opposite sides. The Labour party opposed the high exchange, but the intellectual foundations of its opposition seemed somewhat confused, as Labour currency policy, while more radical than the Government's, could scarcely have avoided exactly the same kind of exchange consequences as were now condemned. Most of the Independent members were also in opposition, and a Labour no-confidence motion based upon the high exchange decision was supported by four members of the Government party as well. In the crucial division on the Bill guaranteeing the banks against loss, the Opposition was joined by another

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four Government members, and the voting was 43 to 35, a striking contrast to the normal Government majority of 20. As one member of the Opposition was absent abroad, and at least two Government members voted for the Bill though opposed to its principles, the margin on which the Government was depending was extremely slender. In view of this, Mr. Coates' declaration less than three weeks after the decision had been announced that "it was high time that the controversy and agitation were allowed to drop" seemed somewhat naïve.

The New Zealand pegged exchange policy differs from most pegged exchanges in that it aims at keeping the exchange rate above and not below the "natural" level. This fact necessitates guaranteeing the banks against loss. With £100 sterling exchanging for £125 in New Zealand currency, the banks may be compelled to buy more sterling than they can sell to persons with sterling debts to meet, and the Government has therefore guaranteed the banks against loss incurred through such accumulation of funds. Any policy which would make the "natural" rate conform to the new pegged rate—and perhaps this is the same thing as saying any policy likely to realise the ends for which the high exchange was designed—must provide for some internal credit expansion which would raise prices and stimulate demand for the funds whose accumulation is otherwise threatened. At the time the exchange rate was raised, it was doubtful whether the way in which the maintenance of the exchange was connected with lower rates of interest was widely appreciated, but the further drastic steps to meet what Mr. Coates described as "our fundamental problem of narrowing the gap between internal costs and export prices," which were initiated on February 28, when the Government announced a scheme for the conversion of that part of the public debt (£115,320,000) which is held in New Zealand, together with a reduction of bank overdraft rates from 6 per cent. to 5 per cent., were a move likely to harmonise more closely the "natural" and the

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pegged exchange rates. The large deficit anticipated for the coming year had been increased by nearly £4 millions on account of the exchange rate, in consequence of reduction in customs revenue, increased cost of remittances abroad and the indemnity to the banks. A sales tax of 5 per cent., from which, however, many articles of common use are exempt, was insufficient to fill the gap, and the Treasury sought further relief by a reduction of the burden of fixed interest charges.

The conversion scheme involved an all-round reduction by one-fifth in the interest due on public debt, with the proviso that in no case was the rate to fall below 4 per cent. On the large bloc of so-called "tax-free" securities (more than £32 million), the full reduction of one-fifth was, however, to be imposed, but the privilege of freedom from taxation until the date of maturity was to be maintained. It was proposed to make the nominal return on the whole of the internal debt 4 per cent., with the exception of the tax-free section, where it was to be $3\frac{1}{2}$ per cent., by asking bondholders to accept in exchange for existing securities new securities of a nominal face value upon which a return of 4 per cent. would yield an income equivalent to four-fifths of the return on the original securities. Of the whole internal debt, more than £45 millions is held by the Post Office and other public departments. A considerable part of the debt held by the public had been borrowed at $5\frac{1}{2}$ per cent. or 5 per cent., and it was anticipated that the net annual budgetary gain from the conversion would be £570,000.

In introducing the scheme Mr. Coates said that "bondholders who convert will be free from any other special taxation on interest that may be proposed," and the repetition of this statement made it quite clear that pressure would be applied to bondholders who were reluctant to convert. Mr. Downie Stewart argued that the conversion should be purely voluntary, and the Government spokesmen repeatedly compared it to the recent

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successful English conversion. But a few days later it became clear that the Government had ignored Mr. Stewart's advice, for a proviso was introduced whereby dissenters would be liable to a special tax reducing their interest receipts by one-third. A bondholder who gave no formal indication of his intentions was presumed to have assented to the conversion proposals. There were thus three courses open to a bondholder. He might do nothing, in which case his interest was reduced by one-fifth; he might formally assent to the conversion offer, with an equivalent reduction in his interest; or he might formally dissent, whereupon his interest would be reduced by one-third.

In spite of formal similarities, it is clear that the conversion schemes of the New Zealand and the British Governments differ in quite fundamental respects. At the time the scheme was announced, the market price of 4½ per cent. bonds was well below par, and it has never been pretended that the Government could pay off dissenting bondholders in full. The only provision made for repayment of capital is designed to meet the needs of small bondholders on whom a drastic reduction of one-fifth in their income from government stock might impose undue hardship. The date of maturity of the new securities is also several years later than the date of maturity of the old. Provision has been made for similar treatment of local body debt held in New Zealand, the basic rate here being fixed at 4½ per cent., and the separate conversion schemes of the numerous local governing bodies requiring the approval of the Local Government Loans Board.

Whether such a set of proposals deserves the name conversion, usually hitherto reserved for operations such as those associated with the names of Goschen and Neville Chamberlain, may be doubted, but, on the whole, the proposals have not aroused much vocal hostility. The Government has been criticised a good deal for pretending that the conversion was voluntary, but there was no

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organised parliamentary opposition. The Labour party in general has approved of the scheme, though Mr. Savage, the deputy-leader of the party, while believing that "the Bill provided an orderly means of bringing down interest rates, instead of allowing them to crash as the result of default," complained that there was "no attempt at graduation or exemption." The Government had no doubt received assurances beforehand from financial authorities of a favourable reception for the scheme, and Mr. Coates, in introducing it, was able to announce that holders of £16½ million had already agreed to convert. Less than three weeks later (by March 17) this figure had been raised to more than £38 million, exclusive of the debt held by public departments, or more than 55 per cent. of the private holdings of debt.

The conversion of the public debt was the more spectacular part of the Government's newest proposals, and involved the most drastic breach with the traditional institutions of a capitalist economy, but it is probable that the more important step on the road to recovery was the reduction of bank overdraft rates with which have been associated parallel interest reductions elsewhere. In the absence of a highly organised money market, New Zealand reactions to lowered interest rates are likely to be sluggish, but some change of this kind appears to be an essential precondition for the revival of business activity. The Government seemed indeed a little confused about the purpose of the lower interest rate. "If we can cheapen the price of money," said Mr. Coates, "it will lead to cheaper prices for many other things," whereas the more reasonable view seems to be that easier money rates were likely to encourage business activity and raise prices so that internal conditions might approximate more closely to the requirements of the artificially pegged exchange rate. It has been argued for some time in certain quarters that the state of affairs disclosed by the continuous accumulation of fixed deposits already justified a lower interest rate, and

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to that extent the change to which the banks have now agreed merely registers after some delay corresponding changes which have already occurred in the financial structure of the country. The lowering of the overdraft rate will not be effective until May 1, and it will then be seen whether the shocks which have been administered to business have been too severe to enable it to take advantage of the opportunities for expansion which the lower rate is designed to afford.

With a falling national income the revenue from taxation has also inevitably declined, and in addition to salary cuts, the Government has enforced drastic economies in many directions, including cuts in pensions. Careful economy is always desirable, but those who believed that the social services of New Zealand were an expression of a wider realisation of the true relative values of things have been disappointed at the complacency with which some sections of opinion have accepted the reduction of these services. Especially in connection with education, it has become unhappily clear that many politicians and business men still fail to appreciate fully the value to the whole community of liberal investment in this field.

New Zealand has never had a system of unemployment insurance, opinion on this subject being unduly influenced by the interpretation of British experience current in the less balanced sections of the British press, and the Government has therefore been compelled to meet an unusual unemployment problem with improvised measures, whose consequences have seldom been entirely satisfactory. The Government endeavours to associate the provision of relief with the performance of work, Mr. Forbes having asserted the Government policy to be "no work, no pay," but much of the work which is organised on this principle either cannot be regarded by those who perform it as much better than killing time, or is unsuitable for the men required to carry it out. In addition to other increases in taxation, a flat rate tax of 1s. in the £ is imposed on all incomes,

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practically without exemptions, and the proceeds administered by an Unemployment Board, which organises various types of relief work. Both through the Unemployment Board and otherwise the Government has endeavoured to counter unemployment by encouraging productive work. The industries to which most attention has been given are farming and gold-mining, the opinion being widespread that an appropriate way to diminish the profound economic distress of the farming population is to induce more people to submit themselves to the same risks.

III. THE REACTION TO THE DEPRESSION

IT is difficult to make accurate generalisations about the outlook even of a country which, like New Zealand, has a population both small and unusually homogeneous. New Zealand thought upon the depression may nevertheless be classified according as it emphasises dependence on world conditions or the possibility of recovery by purely internal action. The importance of world conditions is now a well-established article of faith in many quarters, and there has been much discussion of the evil effects of war debts, tariff barriers and the other factors familiar to students elsewhere. But there is little understanding of the way in which these factors operate, or of the most appropriate methods for their removal, and there is no sense whatever of responsibility on the part of New Zealand for world conditions as a whole. As Mr. Forbes observed in June last year, "it is a matter of general agreement that tariff barriers, rising higher as they have since the war, are a cause of trade dislocation and depression," but while New Zealand is agreed about the folly of tariff barriers in general, she displays little eagerness to lower her own. The concessions granted at the Ottawa Conference were gratefully accepted, but preparations for the corresponding concessions promised to Great Britain are being made in a leisurely fashion which indicates no lively sense of the

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urgency of the situation. The manufacturers indeed are engaged in propaganda to show that tariff reductions are undesirable, and the Labour party is much disposed to use protectionist sentiment as a weapon against the Government. Mr. Ransom, the Minister of Lands, indeed, when the Government was charged last October with having sacrificed the manufacturers at Ottawa, hurriedly replied that the Ottawa agreements merely provided, in relation to tariff revision, "that the matter should be the subject of inquiry and investigation." The suggestion that any immediate action might be taken seemed almost to startle him. The farmer, traditionally in favour of low tariffs, is not, however, in a strong position to counter manufacturing propaganda. He showed himself curiously insensitive to the obvious charge that further exchange depreciation strengthened the barriers checking trade, and was difficult to reconcile with at least the spirit of the Ottawa agreements, and in special cases like wheat, where his own interests are affected, he showed himself as susceptible to the influence of protectionist sophistries as any manufacturer ever was. In fact, the most important change in tariff policy since the conclusion of the Ottawa agreements has been the placing of an embargo on Australian fruit.*

If New Zealand has no clear notion of the real foundations on which the economic interdependence of the parts of the Empire rests, much less is there any real understanding, translating itself into effective action, of the fact of world interdependence. As late as February 8 the Prime Minister confessed that the Government had no plan for the coming World Economic Conference, and that the question of representation at the Conference had not been considered. In the present state of governmental and public opinion it is to be feared that the official representatives of New Zealand at such conferences may be more

* Negotiations between Mr. Coates and an Australian Minister for a thorough overhaul of trading relations are, however, now (March 20) in train.

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concerned with "defending New Zealand's interests" in the narrowest sense of that phrase than with any effort to grasp the world situation as a whole, or with considering whether a narrow interpretation of New Zealand's interests might, in no very long run, not prove damaging to the very interests which it was designed to protect.

Alongside the recognition of the importance of external factors, and often in the minds of the same people, the feeling is also strong that New Zealand's economic condition is the result mainly of her own internal policy. This belief expresses itself in two quite divergent ways. One section constantly emphasises the necessity for internal economy and stresses the evil effects of excessive borrowing and extravagant government expenditure. These influences have certainly had some effect, but the emphasis placed upon them is exaggerated, and when combined with the irrational but widespread view that we cannot reasonably expect ever to return to the high economic standards of recent years, this exaggeration may give New Zealand public policy a definitely reactionary twist. At the other extreme, failure to appreciate the importance of world conditions has led others to suppose that recovery inside New Zealand would be possible merely as a result of changes in credit policy. This error, shared in varying degrees by many sections of the community, still further delays appreciation of the character of the fundamental world adjustments which are necessary everywhere if the depression is to be ended.

New Zealand indeed suffers from the error so common in all groups of human society of supposing that the future can be planned on the assumption that the conditions of the past will be indefinitely perpetuated. Her short history began when population throughout the world was rapidly increasing, and there was still a vast untouched potential demand for foodstuffs and raw materials. In those days it was to the interest of individual New Zealanders, and to the advantage of the rest of the world, to stimulate without

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limit the production of the commodities suitable to New Zealand's climate and other natural characteristics. Many of the fundamental conditions of this happy epoch have now altered, and New Zealand has not yet realised that a change in the fundamental conditions necessitates a corresponding change in general outlook and public policy. There is still of course a considerable unsatisfied potential demand for products such as New Zealand specialises in, but the conversion of potentiality into actuality depends upon improvements in the productivity of poorer countries and upon willingness to trade with them on the part of wealthier countries, which at the best can show their effects only slowly. The rate of population growth in the more industrialised areas throughout the world has now greatly diminished, the standard of efficiency in food production has been enormously improved, and standards of living have been so raised that the demand for foodstuffs and raw materials is much less elastic than it was, so that an increase of output is more likely to lead to a glut. The implications of the changed outlook are by no means easy to trace even in bare outline. Popular ideas on migration, on the economic value of the so-called luxury trades, and on many other subjects will probably have to undergo drastic revision, and the problems of adjustment may be insoluble except by international co-operation of a closer type than any with which we have hitherto experimented. Certainly failure to appreciate the character of these changed conditions and as yet to discover the adjustments which are called for in consequence is among the most important of the influences retarding the recovery of New Zealand and other primary producing countries.

New Zealand.
March 20, 1933.

